

FINANCIAL TIMES

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THURSDAY MAY 28 1998



Lucent's Henry Schacht
'Too many get cold feet
as retirement approaches'
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EU companies statute
Broad principles may
be agreed next week
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Catastrophe bonds
Struggling to compete with
the reinsurance market
Page 6

Accidental Theorist
Economics guide for
the perplexed
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WORLD NEWS

Tens of thousands of Korean workers join general strike against job losses

Tens of thousands of South Korean workers yesterday launched a two-day general strike against unemployment as the government, struggling with the worst recession in two decades, warned union leaders the action was illegal. Page 14

EU near deal on company law
European Union states are close to a deal on a company statute aimed at allowing multinationals to operate more efficiently across the EU. Page 3

Serbs halt student protest
Serbian police prevented more than 1,000 students from marching through Belgrade in protest at a new law that imposes direct government control over their university. Page 2

India backs disarmament
Indian Prime Minister Atal Behari Vajpayee told parliament Delhi would pursue global nuclear disarmament in international forums and refrain from exporting nuclear technology. Page 4

Beef exports to go ahead
The European Commission decided Northern Ireland can start exporting beef from next Monday, for the first time for more than two years. Page 9

France fears World Cup terror
France said it had "real and troubling" evidence of militant Islamic threats to next month's World Cup soccer championships. Page 8

Iran-Saudi accord signed
Iran and Saudi Arabia signed an agreement to co-operate in a broad range of fields ranging from business and investment to culture and sports. Page 5

Danish PM calls for Yes vote
Danish Prime Minister Poul Nyrup Rasmussen appealed for a Yes vote in today's close-fought referendum to endorse closer European integration. Page 3

US 'wants France back in Nato'
A senior US senator said Washington will work hard to have France return to being a full member of Nato despite French efforts to "irritate" the US. Page 6

Minister survives calls to quit
Angela Merkel, the German environment minister at the centre of a row over contaminated nuclear waste transports, survived a call from the Greens for her resignation. Page 2

Georgian government blamed
Demonstrators in Tbilisi blamed the government for allowing 30,000 Georgians to be driven from the buffer zone with rebel Abkhazia. Page 3

Concern over UK inflation
A Bank of England official said UK inflation will continue to rise unless wages and consumption are kept under control. Page 9

Greenpeace seeks pipeline ban
Greenpeace is seeking a court injunction to halt construction of a gas pipeline it says threatens Argentina's dwindling jaguar population. Page 7

Taxi protest foiled
A federal judge stopped a plan by New York City taxi drivers to drive slowly through the city in protest at proposed new rules of conduct. Page 6

Some colour pictures were unable to run in this edition because of transmission problems to print sites.

BUSINESS NEWS

Daimler investors welcome Chrysler merger as chairman rules out job cuts

Daimler-Benz shareholders welcomed the merger with Chrysler as chairman Jürgen Schrempp promised there would be no job cuts and vowed to protect the Mercedes-Benz brand. Also, German unions agreed that US car workers would be represented on the supervisory board of the new Daimler-Chrysler group. Page 15

British Airways reported annual pre-tax profits down 8.4 per cent to £580m (\$945m) due to the strong pound and a strike by cabin crew, but lower fuel prices and cost-cutting helped hold the decline to less than expected. Page 16

Switzerland's federal government approved draft legislation to sever the Swiss franc's link to gold, setting the stage for a referendum and constitutional amendment that would allow the Swiss National Bank to sell half its reserves, about 1,300 tonnes. Page 2

CSN, Brazil's biggest steel group, and Thyssen Krupp Stahl of Germany, the world's number three, will invest \$250m in a joint venture to make galvanised products for the motor industry in Brazil and other regional countries. Page 17

Nissan, Japan's second-largest carmaker, unveiled its fourth loss in five years because of sluggish sales. The results contrasted sharply with record profits by Toyota and Honda, which enjoyed buoyant demand overseas. Page 15

Alfa Credit, Greece's biggest private bank, came to the rescue of the Socialist government with an offer to buy the struggling state-run Ionian Bank which is at the centre of violent labour protests over privatisation policy. Page 3

Hikmah "Terry" Meadala Putra, youngest son of Indonesia's former president Suharto, dismissed reports he may sell his 60 per cent stake in Lamborghini, the Italian sports car maker, to Volkswagen of Germany. Page 19

Air France, the French national carrier, reported its first full-year net profit for several years but chairman Jean-Cyril Spinetta said its partial privatisation would be put off until after summer. Page 18

UK pension funds made an average return of 11 per cent in the first quarter, the highest for more than five years, compared with a loss of just over 1 per cent in the last quarter of 1997, but WHM, the performance measurement company, warned that returns were running below 2 per cent in this quarter. Page 9

PolyGram, Europe's largest music group, is to launch two experimental promotions next month in which it will sell selected albums at the same wholesale price throughout Europe. Page 8

Asia fears hit world stock markets

Concerns over economic problems halt record-breaking run on Wall Street

By Philip Coggan and John Riddling

Worries about Asia's economic problems sent world stock markets into a spin yesterday, prompting an end to the recent record-breaking run on Wall Street and in Europe.

The US stock market had started to slip on Tuesday, when the Dow Jones Industrial Average fell 150 points, and investors' confidence was dented further yesterday by a sharp drop in the Hong Kong market.

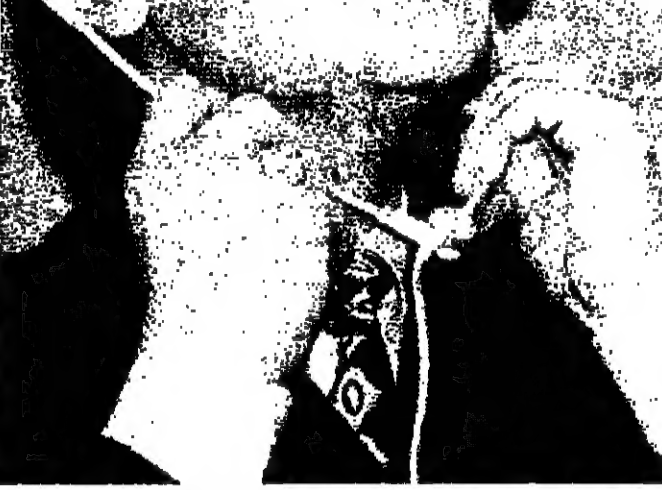
The Hang Seng index fell 5.3 per cent after Tung Chee-hwa, the territory's chief executive, said economic growth would fall substantially and could even be negative.

First quarter growth figures due tomorrow are expected to show a fall in output and to signal the territory's first recession since 1985.

Investment analysts said the government appeared to have waited until after this week's legislative election to signal the severity of the downturn. Last weekend Donald Tsang, financial secretary, said he saw no need to revise his forecast of 3.5 per cent growth for the year.

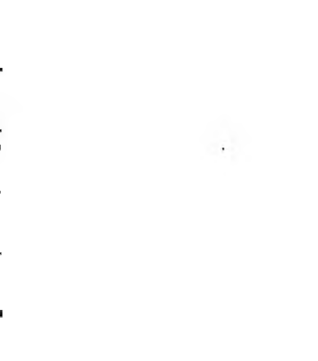
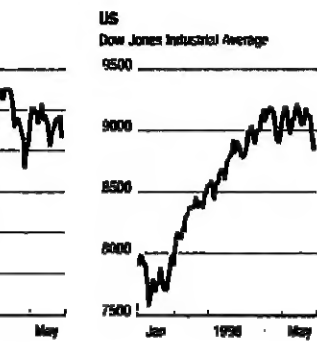
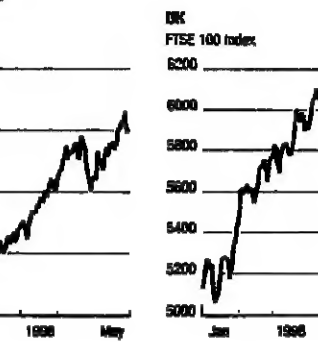
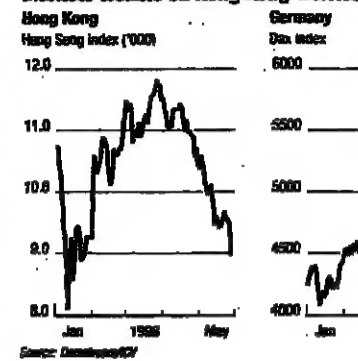
Meanwhile, the continued weakness of the Japanese financial system was illustrated when Moody's reduced its credit ratings of five Japanese banks, including Bank of Tokyo-Mitsubishi and Dai-ichi Kangyo Bank, after the sector's recent set of poor results. The Nikkei 225 average fell 226.53 to 15,664.29.

Analysts said the fall of the Japanese yen, which hit a seven-year low against the US dollar on Tuesday, may have sparked the sell-off. Joe Rooney, global strategist at Lehman Brothers, said: "Trouble has been brewing under the surface for a few weeks. The weakness of the yen is a threat to Japan's Asian competitors such as Thailand and Korea and raises fears of a Chinese devaluation, which puts pressure on Hong Kong. Wall Street has fallen in response to the deterioration of conditions in Asia."



Prime minister Sergei Kiriyenko: turbulence will test his mettle. Picture: Reuters

Markets wobble on Hong Kong worries



Evidence of Asia's problems revived worries that economic, and corporate earnings, growth in the US and Europe might be adversely affected.

The crisis in Russia, where the central bank trebled interest rates to defend the rouble, also dented sentiment. Europe's stock markets fell by around 2-3 per cent, with the FTSE 100 index dropping 63.8 to 2,812.42. In London, the FTSE 100 index fell 100.5 to 5,870.3.

Wall Street gave another downward twist to the spiral when it

opened lower in response to falls in the rest of the world. By 1pm New York time, the Dow Jones Industrial Average was 106.12 points, or 1.2 per cent, down at 8,857.61.

Turbulence also continued to hit the Brazilian market which, having fallen 5.8 per cent on Monday, was down 3.6 per cent by early afternoon.

Some analysts felt the fall in European markets was an inevitable setback after their recent strength. Before yesterday the FT/S&P Europe index had risen

27 per cent since the start of the year, in dollar terms, and 53 per cent since the start of 1997. Ian Harnett, director of European strategy at BT Alex Brown, said: "European markets are still above equilibrium levels and we have still not seen the full extent of the correction we expect."

Asian crisis, Page 8
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Russia triples interest rates to 150% as rouble stumbles

By Chrystie Freeland in Moscow

The Russian central bank tripled interest rates to 150 per cent yesterday in a last-ditch effort to defend the rouble and restore stability to the financial system.

President Boris Yeltsin has summoned his most important economic advisers to an emergency meeting in the Kremlin today to fight off one of the worst crises Russia's nascent market economy has endured.

The rate rise came in response to turmoil on Russian markets, where share prices fell by more than 10 per cent in the course of the day and yields on treasury bills soared above 80 per cent.

The rouble, rocked by fears of devaluation, edged below the central bank's daily target corridor, but strengthened after the interest rate rise. Shares have fallen 40 per cent since the start of the month and have lost more than half their value since the beginning of the year.

Russian officials, in negotiations with the International Monetary Fund, have raised the possi-

bility of a special fund to defend the rouble. The Kremlin is also hoping the IMF will decide by the end of this week to release a \$670m tranche of Russia's three-year \$9.2bn loan. A senior IMF official is expected to arrive in Moscow for talks today.

Michel Camdessus, the IMF managing director, sought yesterday to calm Russia's troubled markets. "Contrary to what markets and commentators are imagining, this is not a crisis," he said.

Sergei Dubinin, the central bank chairman, said the rate rise was an effort to defend ordinary Russians and to fight off "speculators" who hoped to profit from fears of a devaluation. The rise would be a "cold shower" for the overheated market.

The turbulence will test the mettle of Sergei Kiriyenko, Russia's new prime minister, whose team has already suffered one setback this week when it failed on Tuesday to find a buyer for Rosneft, the largest Russian oil company still to be privatised. That may have helped trigger

yesterday's turmoil by depriving the treasury of the \$2.1bn it had expected to make from the sale.

The frantic selling followed weeks of steady deterioration of the Russian financial system. Last week Russian equities shed more than 11 per cent in a day, prompting the central bank to raise interest rates from 30 to 50 per cent.

Investor concern has focused on Russia's public finances, particularly its inability to boost tax collection. After gradually improving in the first quarter of the year, tax revenues fell last month and are expected to be poor this month as well. Russia's woes have been heightened by falling international prices for oil, a major export earner.

"The central bank had one single purpose - to give a strong signal to the markets that they will not be dissuaded from defending the rouble, even at the cost of horrific interest rates," said Martin Diggle at Moscow brokerage Brunswick Warburg.

Editorial Comment, Page 13

Brussels blocks Bertelsmann-Kirch digital pay TV deal

By Samer Iskandar in Brussels

The European Commission yesterday blocked a planned German digital pay TV venture, after Bertelsmann, one of the partners, refused to back a last-minute compromise which would have saved the deal.

The proposed deal involved merging DF-1, a loss-making digital TV service run by Kirch, the German media group, with Premiere, an analogue TV service controlled jointly by Kirch and CLT-Ufa, the Luxembourg media company part-owned by Bertelsmann of Germany.

The decision to outlaw the deal threatens to delay by several years the introduction of digital TV in Germany and will increase speculation about the financial position of Kirch, which has accumulated substantial debt to buy rights to popular Hollywood films. Kirch said the Commission decision would not affect its ability to do business.

Brussels has only blocked eight deals since it was given wide-ranging powers to vet large mergers in 1980. Karel Van Miert, EU competition commissioner, said of yesterday's decision: "The European Commission has just decided unanimously to prohibit the joint venture."

Bertelsmann's refusal to agree a compromise meant that the

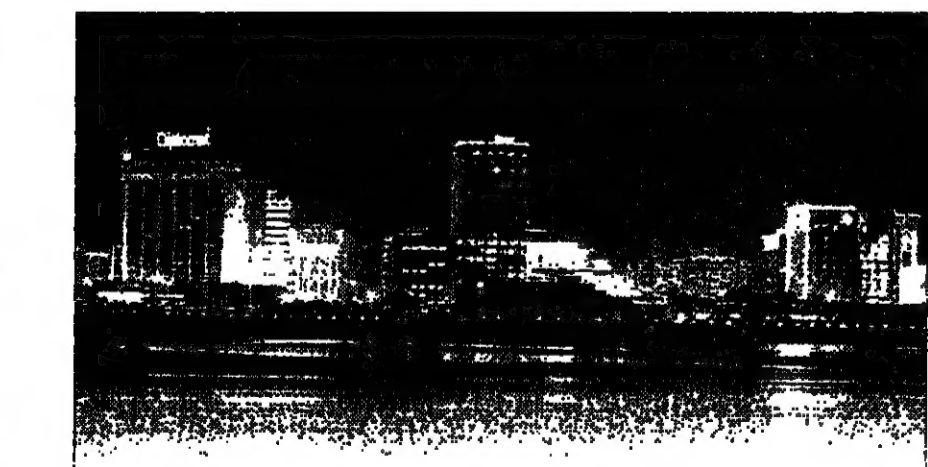
Commission did not have to vote on the joint venture, avoiding the possibility of divisions between commissioners being made public. Other commissioners had urged Mr Van Miert to take into account the industrial and cultural importance of the deal.

Mr Van Miert said an acceptable solution had been within reach of the companies and the Commission. Negotiations had continued until Tuesday and Mr Van Miert had taken the "unusual" step of suggesting a last-minute compromise.

"I made a verbal proposal, which was accepted by Kirch but turned down by Bertelsmann," he said. "Bertelsmann [later] confirmed in writing that it did not want to move at all."

The companies had already made several sacrifices in an attempt to obtain Commission clearance. Mr Van Miert said the Commission and companies should try in future to avoid last-minute negotiations. "A month before deadline [for concluding merger investigations], the Commission should make a decision, to let the parties know that they cannot drag their feet," he said. "We must have time to consult other parties involved... Footdragging can sometimes go too far."

How Van Miert held the line, Page 2



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WORLD MARKETS

STOCK MARKET INDICES			
New York Composite	8,857.61	(-1.2%)	8,857.61
Dow Jones Ind. Avg.	8,857.61	(-1.2%)	8,857.61
NASDAQ Composite	1,753.53	(-0.4%)	1,753.53
Europe and Far East			
FTSE 100	5,870.3	(-1.8%)	5,870.3
DAX	4,812.57	(-1.5%)	4,812.57
Nikkei 225	15,664.29	(-2.2%)	15,664.29
US BOND YIELDS			
10 yr	5.56%		
3 mo	5.00%		
Long Bond	5.81%		
COMMODITIES			
Oil	21.75		
Gold	375.00		
Silver	11.00		
Copper	1.50		
Platinum	1,000.00		
Wheat	1.50		
Soybeans	1.50		
Corn	1.50		
Wool	1.50		
Alumina	1.50		
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Ho	1.50		
Er	1.50		
Tm	1.50		
Yb	1.50		
Lu	1.50		
Hf	1.50		
Ta	1.50		
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Re	1.50		
Os	1.50		
Ir	1.50		
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WORLD NEWS

EUROPE

IOSCO deal to reduce securities risks

By Andrew Jack in Paris and
Jim Kelly in London

International securities regulators in Paris yesterday agreed draft plans designed to reduce systemic risks in national stock exchanges.

IOSCO, the International Organisation of Securities Commissions, described as "ground-breaking" the introduction of this explicit objective into their framework document. It would come alongside the more conventional objectives, already

enshrined in law in the US and other countries, of protecting investors and ensuring the fair and efficient operation of markets.

The IOSCO meeting also approved two technical statements which lay out new recommendations on the identification, monitoring and management of risks, and on methodologies to determine the minimum capital standards required by securities firms.

The draft documents on risk, which have already

been widely circulated and approved by securities regulators including the US Securities and Exchange Commission, are likely to be formally ratified at IOSCO's next annual meeting in Nairobi.

The document on capital standards brings IOSCO closer to the methodologies favoured by the Basel Committee on Banking Supervision based on complex "value at risk" models. As a result, IOSCO expects to reduce market distortions.

Tony Neoh, head of the Hong Kong Securities and Futures Commission, who helped co-ordinate the guidelines, said they would prove useful to the International Monetary Fund, the Bank for International Settlements and other organisations involved in supervising new regulatory structures.

He argued that efforts to control risk in the financial markets were especially important now that the total funds they contained - more than \$80,000bn - exceeded

the money available in the worldwide banking system.

Concern about risks to the financial sector has risen since the Barings crisis, the problems in Asia and political pressure from the G7 leading industrial countries.

The regulators also approved a document on recommended international non-financial statement disclosure standards for cross-border offerings and initial listings by foreign issuers.

It recommends within prospectuses widespread disclosure

on topics including boardroom practices, directors' compensation and stock options, business trends and the ways in which capital raised will be used.

Later this year IOSCO will consider for endorsement a package of accounting standards developed by the International Accounting Standards Committee (IASC). These are also designed to facilitate cross-border listings. The SEC has indicated that endorsement is not a foregone conclusion.

EU COMPETITION POLICY BRUSSELS BLOCKS GERMAN PAY-TV DEAL

How Van Miert held the line against lobbies

By Sander Iskander in Brussels
and Frederick Stüdemann
in London

The European Commission's decision to block the German digital pay-TV project proposed by the media groups Kirch and Bertelsmann appears to be a big scalp for the trust-busters of Brussels.

Despite considerable lobbying from the companies and German politicians, the Commission and its champion, Karel Van Miert, stood their ground.

The result is that viewers in Europe's biggest media

market must now wait even longer for the promised wonders of the multi-channel, interactive world of digital pay-TV. But it is also a severe financial setback for Kirch, and many egos will doubtless be bruised.

Deutsche Telekom, the partly privatised telecoms company, was also to have been involved in developing the technology needed for the broadcasting and reception of digital programming and the distribution of the product on its cable network.

Yesterday's decision appears to mark a significant stage in the debate

about forging a suitable regulatory policy for "new media" industries, such as digital pay-TV, where for some time the need for basic guidelines has been recognised.

In fact, the decision was not so clear-cut. It was only Bertelsmann's refusal to make more concessions which allowed Mr Van Miert to claim that the subsequent decision by the Commission to block the deal was unanimous.

At least eight commissioners, including two each from Germany, France and Spain, disputed Mr Van Miert's argument that, by control-

ling the bulk of programmes, the technology needed to watch them and distribution, the proposed deal would create a dominant market position.

However, some of his critics in the Commission were persuaded by the companies' arguments that the high cost and risk of establishing digital pay-TV in Germany merited a more lenient regulatory stance.

Another factor, common to the "cultural" industries as a whole, was the national and linguistic sensitivities involved in television. But with Bertelsmann's withdrawal, no vote was

needed. Both sides had moved closer to an agreement in recent weeks ahead of a scheduled final decision on June 3, and Bertelsmann's decision to pull out at the last stage reveals significant differences between the two companies, which have often been unwilling partners.

While Kirch was prepared to make more concessions, Bertelsmann said any more revisions would have made the deal economically unviable.

The final stumbling block was the demand from the Commission that independent cable operators should

be allowed to market their own pay-per-view packages either alongside or including those offered by Premiere.

This followed earlier concessions by the companies to bring third parties into the circle of shareholders of Beta Research, the technology and distribution company, and to make 25 per cent of the films to which Kirch holds the pay-tv rights available to other broadcasters.

Yesterday both companies said they would seek to reach a new solution and that the conversion of Premiere to digital technology would go ahead.

Prague launches bank sell-off

By Robert Anderson in Prague

The caretaker Czech cabinet yesterday agreed to advertise the sale of one of the country's biggest banks but to leave the disposal of the other two state-owned banks to the new government formed after the general election next month.

An advertisement for the sale of more than 51 per cent of the state's 66 per cent stake in Československá Obchodní Banka (CSOB), the old foreign trade bank, will be placed in the next two weeks. The government will identify the single bidder which qualify and will leave the choice of the winner to the new administration.

The cabinet hopes that the new government will place advertisements by the end of July for Komerční Banka, the country's biggest bank, and Česka Spořitelna, the main retail bank. A single buyer or a consortium will be able to bid for more than 34 per cent of the state's stakes of just under 50 per cent.

The sales are likely to be of particular interest to west European banks, which are keen to expand their operations in the region. The European Bank for Reconstruction and Development has also signalled that it is prepared to come in alongside a strategic investor, and in the case of CSOB it has discussed buying the Slovak government's 34 per cent stake.

However, the early advertisement of CSOB will be controversial because the Social Democrats - who lead in opinion polls and backed the government in a vote of confidence in January - have demanded that the caretaker cabinet does not bind the hands of its successor.

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Slovak airwaves out of bounds to poll campaign debate

Meciar has raised the stakes in his feud with non-state media, writes Robert Anderson

The Slovak government has raised the stakes in its feud with the non-state media by passing a law that will curtail political coverage by private broadcasters before the general election in September.

An amendment to the election law will limit political coverage to party broadcasts on the state-run television and radio stations and appears to restrict non-state broadcasters to reporting election events in news bulletins or face fines of \$150,000.

"We still don't know the exact conditions of the law," says Andrej Hryc, director of Radio Twist. "We think it will be absolutely impossible to have round-table discussions about politics 30 days before the elections. But in our news programmes we will be talking people what is happening and we expect attacks on us for this."

Critics of the law fear that its ban on "election campaigning" will encompass any reporting or discussion of election matters outside news bulletins by Radio Twist and Markiza Television, which the government of Vladimir Meciar, the prime minister, regards as mouthpieces for the opposition.

The measure is more good example of what is viewed as

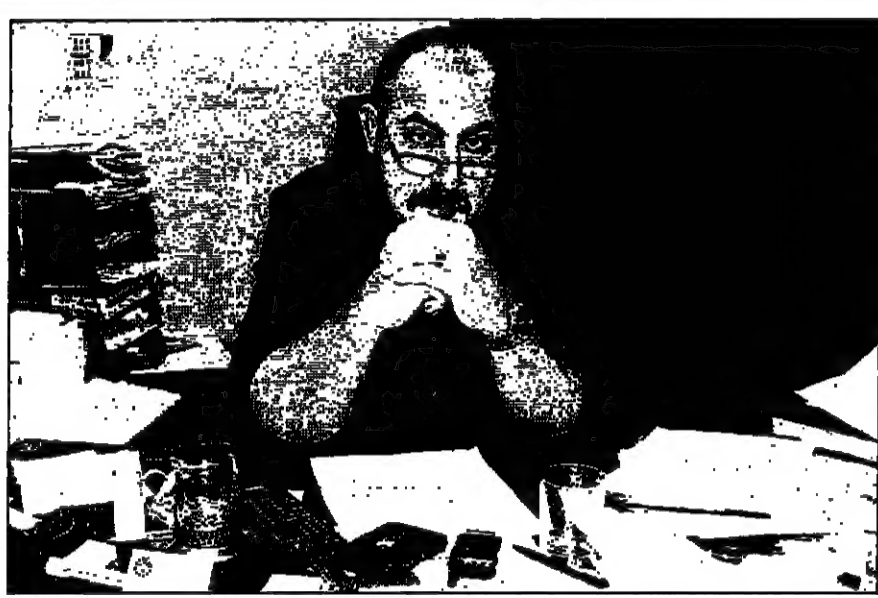
the intolerance of political opposition that led the European Union last year to leave Slovakia out of its first wave of potential new members.

In its opinion given last summer the EU's executive highlighted media freedom, commenting: "The government has exercised considerable influence on the public radio and TV networks, marked in particular by a very substantial imbalance in the amount of access granted to the government and the opposition."

The opposition fears that the state-run television and radio will follow a brief to help put Mr Meciar back in contention for his fourth term in office. Western diplomats are also concerned. One ambassador says: "Elections will be the acid test. Access to the electronic media is vital."

The move against the electronic media follows the failure to tame the print media last year. The government planned to raise consumption tax from 6 per cent to 23 per cent for newspapers which have advertisements covering more than 10 per cent of their space.

After a concerted campaign of opposition from newspapers and rumblings of dissent from the two smaller parties in the ruling coalition, the government



Andrej Hryc: "Round-table discussions about politics will be impossible"

backed down and agreed that the rise would only apply to periodicals with more than 50 per cent advertising.

Instead the government appears to be building up a network of friendly newspapers to balance what is a largely hostile print media. The ruling Movement for a Democratic Slovakia already has its own party newspaper, Slovenska Republika, which is favoured with state support. Now Danubiar, a printing and publishing company controlled by government supporters, is setting up a group of regional newspapers ahead of the elections.

Earlier this year Danubiar print privatised Prva Novina, the largest print media distributor, giving it control over more than half the country's periodical print facilities and raising fears among independent newspapers that this could be used as a threat in the

election run-up.

International media organisations have already criticised several incidents of media harassment. Karol Jozsik, editor of Sme, an influential opposition daily, says his paper has been regularly sued and had its printing contract cancelled after government pressure. Most seriously, last year his chief investigative reporter had his car fire-bombed.

Mr Hryc complains that Radio Twist was shut down for 24 hours last year for a delay in paying a small telecommunications bill when state radio owed the state telecoms company far more. Radio Twist has also had its transmitters vandalised and is regularly fined for minor licence infringements.

Markiza, the racy leading television station 49 per cent controlled by the US-owned Central European Media Enterprises, has not come under the same kind of pressure but it has only recently

become closely identified with an opposition party.

Favol Rusko, general director and co-owner, insists his station is independent though it is widely credited with creating the handbag behind the new Party of Civic Understanding led by Rudolf Schuster, the mayor of Kosice. "The current politicians do not have any credibility," he says. "I only want to help this process in which new people enter politics."

The Slovak media reflect the state of the country's politics rather than hold a mirror up to it. Slovak politics is a winner-takes-all game in which a frustrated opposition plays parliamentary games and mounts public demonstrations to make itself heard. In the same way, the polarised debate in the media has become increasingly degraded, with opposition newspapers subjecting Mr Meciar to a barrage of personal abuse.

Serbian police block university protest

By Guy Dinmore in Belgrade

Serbian police yesterday prevented more than 1,000 students from marching through Belgrade in protest at a new law that imposes direct government control over their university, the latest move by President Slobodan Milosevic to consolidate his power.

The mood was more good-humoured than on Tuesday,

when uniformed and plainclothes police attacked student demonstrators outside the Serbian parliament and injured about 20.

The ruling coalition of Mr Milosevic's Socialists and the ultra-nationalist Radicals passed a law on Tuesday night that allows the government to appoint directly the rector, deans and management board of Belgrade University.

"This law is expected to change a sick state that exists in some universities," Ratko Markovic, deputy prime minister, told parliament.

Serbian students launched a winter of political unrest in Serbia in late 1996 after Mr Milosevic refused to recognise opposition victories in nationwide local elections. The inventive enthusiasm of the students

galvanised people across the country, forcing Mr Milosevic to serve in after three months of street protests.

Diplomats see the law as part of a wider strategy by Mr Milosevic, the federal Yugoslav president, to regain the control for his former communist party over key institutions. Last week Mr Milosevic orchestrated the dismissal of the federal prime minister, Radolje Kon-

tic, whose loyalty had wavered.

This month the federal government denied frequent access to local independent radio and television stations that have irritated the authorities by rebroadcasting news bulletins of Belgrade's B-92 radio station. B-92 itself was given a frequency but at an exorbitant fee that it cannot afford and says it will not pay.

France to sell shares in Aerospatiale

By David Owen in Paris

The French government has given clearance for the capital of Aerospatiale, the state-owned aerospace group, to be opened to outside investors, in a fresh boost for the prospects of consolidation in the European defence industry.

The office of Lionel Jospin, prime minister, said in a statement the government had given Yves Michot, the Aerospatiale chairman, a mandate to "rapidly conclude essential strategic agreements" in the combat

aircraft, tactical missile and space rocket sectors.

To facilitate such partnerships and the development of future industrial programmes, the government had asked Mr Michot to submit proposals "insofar as is necessary" for opening the company's capital and proceeding to a flotation.

The statement marks an important step, since it may help to assuage the concerns of British Aerospace and Daimler-Benz Aerospace (Dasa) of Germany about accepting the French state as a long-term shareholder

in Airbus Industrie. The aircraft consortium is to be turned into a limited company next year.

Aerospatiale, Bae and Dasa are the leading shareholders in Airbus, which at present makes no profits or losses in its own right.

Airbus's transformation into a single company is seen as a key stage in a wide-ranging restructuring of Europe's aerospace and defence industries aimed at creating entities capable of competing effectively with the leading US defence groups. Bae and Dasa have

put the French government under pressure to privatise Aerospatiale.

Yesterday's statement also reiterated that Mr Michot should encourage Airbus's transformation into an integrated company in line with the agreed calendar, while respecting French interests and keeping watch over the development of Aerospatiale's activities.

Officials indicated the move was designed to give Mr Michot as much freedom as possible in negotiating alliances with other aerospace companies and to

show confidence in the newly reorganised Aerospatiale management team.

The announcement was made less than two weeks after Paris moved to strengthen its hand in negotiations on the future structure of the European defence industry by transferring to Aerospatiale its 46 per cent stake in Dassault Aviation, the military and executive aircraft specialist.

The timing of any eventual Aerospatiale flotation and the proportion of capital it is likely to involve are uncertain.

NEWS DIGEST

BULLION SALES ON WAY

Swiss government set to sever franc link with gold

The Swiss federal government approved draft legislation yesterday which severs the Swiss franc's link to gold, thus paving the way for the Swiss National Bank to sell about 1,300 tonnes of gold, or half of its reserves.

The plan to revalue and gradually sell gold reserves requires parliamentary approval and amendment of the Swiss constitution. It must be endorsed by Swiss voters in a referendum. A finance ministry spokesman said the referendum would probably take place next year.

According to the plan, made public after a Swiss cabinet meeting in Bern, the National Bank could revalue its 2,590 tonnes of gold reserves to about 60 per cent of the current market price.

The SNB's gold reserves are currently valued at a fixed price, spelled out by the Swiss constitution, of 4,595 Swiss francs per kilo. That is only roughly one-third of the current market price.

Switzerland is the last major country in the world to officially link its currency to gold. Reuters, Bern

NUCLEAR WASTE ROW

Merkel wins Kohl's backing

Angela Merkel, the German environment minister at the centre of a row over contaminated nuclear waste transports, yesterday easily survived a call from the environmentalist Green party for her resignation.

In a noisy emergency debate that followed the discovery of excessive radiation on the outside of special "cask" containers used to ship used fuel elements from nuclear power stations, Helmut Kohl, the chancellor, gave Mrs Merkel his full backing.

He told the Bundestag, the lower house of parliament, that Mrs Merkel was an "excellent" minister doing "a fantastic job".

All three parties in Mr Kohl's centre-right coalition voted against the Greens' demands that Mrs Merkel should resign. Although critical of the minister, the main opposition Social Democratic party abstained.

Mrs Merkel has proved a robust and determined defender of the government's nuclear policy since the row blew up last week.

She said yesterday the use of nuclear energy could be defended, but accused the industry of triggering a loss of confidence by keeping the contaminated waste shipments secret for many years. Peter Norman, Bonn

ICELANDIC LOCAL ELECTIONS

Defeat for Independence party

Iceland's Independence party, the dominant group in the two-party coalition government, was yesterday said to have suffered the largest defeat in its history after failing to retake control of Reykjavik in local elections.

The party, which has controlled the capital for most of the past 70 years, saw an alliance of leftwing parties win a second term in power in Reykjavik after elections at the weekend.

"This is the biggest defeat for the Independence party and the most important victory for the left in Icelandic history," said Svanur Kristjánsson, professor of political science at the University of Iceland.

The Independence party, led by David Oddsson, prime minister, polled 45.24 per cent of the vote in Reykjavik, against 53.6 per cent for the four-party leftwing alliance.

Discontent at the ruling coalition, comprising the Independence and Progressive parties, has been fuelled recently by allegations of corruption and incompetence in the banking sector. Tim Burt, Stockholm

SLOVAKIAN POWER PLANT

PM rejects plea for delay

Slovakia yesterday rejected the latest plea by the Austrian government to delay starting its controversial Mochovce nuclear power plant, which Austrian experts say may not be safe.

Vladimir Meciar, Slovakia's prime minister, has agreed to a continuation of expert talks, but only under the auspices of the International Atomic Energy Agency.

An IAEA spokesman said the agency had no serious worries about the safety standards of Mochovce, a Soviet-style power plant that was started under communism and is now being completed with the help of western technology.

The plant's operator, Slovenske Elektrarne, plans to activate the nuclear fuel rods by the end of May and to have the first reactor operating on a trial basis in July.

But Wolfgang Kromp, the head of an Austrian-led team of experts which inspected the plant earlier this month, warned of the potential for "the biggest accident imaginable" if the nuclear fuel rods are activated before improvements are undertaken. Eric Frey, Vienna

RPR INVESTIGATION

Chirac denies 'crisis' tactics

President Jacques Chirac's office yesterday denied a newspaper report that it had formed a "crisis unit" to cope with the growing judicial investigations surrounding the RPR, the centre-right party founded by Mr Chirac.

Le Monde said that Mr Chirac's secretary-general, his legal adviser and the former head of the private office of Alain Juppé, the former RPR prime minister, had held meetings to consider how to counter-attack in the event that a magistrate questioned Mr Juppé.

Mr Juppé denounced the report as an attempt to place pressure on the legal investigations into the financing of the RPR. Media reports last week alleged the Paris city hall had paid for 300 RPR activists at a time when Mr Chirac was mayor and Mr Juppé his deputy for financial affairs. Andrew Jack, Paris

WORLD CUP

Strike may disrupt air travel

The threat of disruption to air travel in France during the World Cup football tournament which begins next month appeared to be growing yesterday after Air France pilots gave formal notice of a two-week strike to start on June 1.

The move, by the SNPL, the main pilots' union, is in protest at proposals by the company to cut its annual salary bill by FF600m (\$84m). Pilots have been offered shares in the group in exchange for agreeing to such measures.

The SNPL said yesterday that if nothing changed before Sunday night, it was certain there would be a strike from Monday. But it described the timing of the World Cup as a "pollution of the situation" and said it did not intend to take the tournament hostage.

Air France, for its part, pledged to guarantee the transport of teams due to take part in the tournament, which kicks off on June 10. David Owen, Paris

Air France privatisation to be delayed, Page 18

Rescue offer

deal close on company statute but red tape

Michael Smith

Supporters say all should be able to respond to the situation. The situation is not a crisis. The situation is not a crisis. The situation is not a crisis.

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GREEK STRIKES PRIVATISATION PROTESTS GROW

Rescue offer for bank

By Karin Hope in Athens

Alpha Credit, Greece's biggest private bank, came to the Socialist government's rescue yesterday by saying it would offer to buy Ionian Bank, a struggling state bank at the centre of violent labour protests over privatisation policy.

Yannis Costopoulos, Alpha Credit's chairman, said in an interview with the FT that the bank would seek shareholders' approval next month for a Dr90bn-Dr95bn (\$265m-\$300m) capital increase to bid for a 51 per cent stake in Ionian, which is to be offered for sale through the Athens stock exchange.

"We intend to make a firm offer. We would pay quite a big premium on the bank's book value in order to demonstrate our confidence in the capabilities of Ionian's workforce," Mr Costopoulos said.

The government is under pressure from Brussels to speed up privatisation of state-controlled banks and public utilities, to ensure that Greece can meet a January 1 2001 deadline for joining the European monetary union.



Greek strikers march in central Athens yesterday in protest at privatisation plans

Reuters

But the scheme to sell Ionian rather than merge it with its cash-strapped parent group, Commercial Bank, has triggered repeated strikes by bank staff, supported by transport and utility workers.

Riot police yesterday used tear gas to disperse demonstrators who tried to enter the parliament building during a one-day strike called by the General Confederation of Labour. The bank union, OTOE, announced more strikes next month.

But the rolling strikes staged by state-controlled banks for the past two weeks have attracted comparatively little support. Alpha Credit's union boycotted the walkouts and participation by workers at state banks has averaged less than 40 per cent, analysts said.

The government has pledged that all 4,200 jobs at Ionian would be guaranteed for three years after the sale. Mr Costopoulos said Ionian would not be merged with Alpha Credit "because

of the problems that would arise with trying to bring two separate pension funds in line". He said most of Ionian's 160 branches would be kept open to strengthen Alpha Credit's network.

With assets of \$1bn and a capital base of \$1bn after next month's increase, Alpha Credit is Greece's only European-sized private bank. Analysts said it would be likely to offer about Dr150bn for 51 per cent of Ionian, which has a book value of Dr90bn.

MPs accuse Shevardnadze

By Selma Williams in Tbilisi and Laura Silber in New York

Leaders of Georgia's parliamentary factions met yesterday to discuss President Eduard Shevardnadze's decision not to send government troops to support partisan fighters in Georgia's rebel province of Abkhazia.

Earlier in the morning, a group of demonstrators gathered outside parliament and blamed the government for the "ethnic cleansing" of some 30,000 Georgians from the buffer zone separating Georgian-controlled territory from Abkhazia.

"The result of Shevardnadze's decision has been a radicalisation of opposition forces," said Georgy Khutsishvili from the Institute of Conflict and Negotiations in Tbilisi. "This could destabilise the situation in Georgia and make it much harder to find a solution to the conflict."

Fighting broke out between Abkhaz separatists and Georgian partisans a week ago in Gali, Abkhazia's southern region. The fighting quickly intensified, but calmed yesterday after an agreement took effect.

But a large influx of ethnic

Georgian refugees into the neighbouring town of Zugdidi in western Georgia has stretched local resources. There are fears that the refugees' discontent could be used by external forces to foment further problems in the former Soviet republic.

In New York, Kofi Annan, UN Secretary General, has recommended the despatch of a 284-strong force to protect a 90-member unarmed team of UN observers, who are risking landmines, kidnappings and banditry and have been confined to their barracks. The force may be withdrawn in July unless

the security situation improves markedly.

The president, who escaped an assassination attempt in February, said then that "reactionary" forces in Russia planned the attack to prevent Georgia winning the contract for a pipeline to carry crude oil from Central Asia to international markets. The proposed route through Georgia would pass less than 100km from Abkhazia, but the alternative Russian route would pass through Chechnya and other republics in the northern Caucasus.

Support treaty, says Danish PM

By Hilary Barnes in Copenhagen

Poul Nyrup Rasmussen, Denmark's prime minister, has appealed for a Yes vote in the referendum today on the European Union's Amsterdam treaty on closer integration, in a sign that the government is not taking the result for granted.

A poll published in a Copenhagen newspaper yesterday showed 45 per cent in favour to 35 per cent against, with 20 per cent undecided. "I would be surprised, but

not very surprised, if there was a No majority tomorrow," a European diplomat said.

The treaty prepares the way for former eastern bloc countries to join the European Union. The vote today will be Denmark's fourth on an EU issue in 12 years.

Mr Nyrup Rasmussen made the appeal to voters during a national televised debate late on Tuesday. Looking anything but confident of victory, he warned: "If there is a No, Denmark

will be isolated and will lose influence." Marianne Jelved, minister for the economy, said: "Denmark will become a blank space on the map if there is a No."

Both sides have placed adverts in women's magazines in an attempt to win over female voters, who seem more sceptical about the treaty than men. Women voters oppose the treaty - by as much as 60 per cent against 40 per cent in favour - according to some polls. But the financial markets

seem to expect a Yes majority. The krona has strengthened slightly against the German mark over the past few days. The yield on long-term government bonds has fallen, and the yield gap to German bonds has narrowed slightly.

Meanwhile, police are taking extensive precautions in case there is a repetition of the riots which broke out in Copenhagen's inner suburb of Noerrebro after the 1993 vote to ratify the EU's Maastricht treaty.

Deal close on company statute to cut red tape

New law could bring the single market a step closer, reports Michael Smith

Few laws have been longer in the making. But after 28 years of wrangling, European Union nations are tantalisingly close to a deal on a European company statute aimed at allowing multinationals to operate more efficiently across the EU.

The UK and Germany are moving towards resolving differences over worker representation which have long held up the deal.

While other countries have problems with the proposed agreement, there are hopes these too can be overcome, and that the broad principles covering the statute can be agreed at a meeting of social affairs ministers in Luxembourg next week.

The UK is keen for a deal as a trophy for its six-month EU presidency. It would help Tony Blair's government in its claims that it is battling for business. British Petroleum and British Aerospace are among companies which have been urging the UK to broker an agreement.

The statute's supporters say its adoption would bring the single market a step closer. Business would be better able to respond to pressures for economic globalisation, particularly in competing with US groups which benefit from a more integrated legal structure.

A business which adopted the statute would become a Societas Europaea (SE). Multinational companies say this would reduce the need for businesses to set up a complex network of subsidiaries governed by different national laws. Requirements for head office functions, separate boards of directors and annual meetings in each country would be reduced.

European Commission officials say mergers between companies of different countries would be easier to implement. "The statute would allow corporations to live under one set of company law rules," says Sue Binns, company law director at the Commission. "It would not solve all the problems of operating in more than one country, but it would be an immense simplification."

Not everyone is enthusiastic, however. Alec Burnside, a Brussels partner with law firm Linklaters & Paines, argues the statute would provide for little more than re-branding of national companies. "The European halo for companies adopting the SE may be valuable," he says. "But claims that it will simplify corporate affairs across Europe are wishful thinking."

The statute, he says, is limited because a series of issues including directors' liability, insolvency and tax are referred to the national law of the country where the SE is registered. It will create a complex interaction between European and national law.

Multinationals have long argued that differences

between tax regimes complicate business and add to costs, and are disappointed that the SE will do little to tackle the problems.

But governments long ago rejected the idea that as part of the statute they would allow companies to pay tax in one country, leaving national authorities to sort out their share. However, some EU officials believe tax reform will rise on the political agenda once SEs are in operation.

The immediate task, however, is resolution of issues connected with worker representation. European countries have widely differing approaches, with Germany at one extreme enshrining in law a system with worker representatives on supervisory boards and the UK, at the other extreme, with a more constrained role for employees.

The proposed deal provides for the worker representation model to be adopted in mergers between companies with opposing systems, although this would be overturned if two thirds of workers voted against participation. The British government argues this is justified since no company will be forced to become an SE.

Dirk Hudig, secretary general of Unice, the European employers' federation, is supportive of the broad principles of the statute. But he says a system that allows one-third of employees to decide is unacceptable. "It doesn't make sense for the minority to be able to impose their wishes on the majority," he says.

And while the UK has compromised, France, Italy and Spain have yet to be convinced. France's opposition is supported by unions in a country where management and employee roles are traditionally kept separate.

The UK is working on plans to appease the potential opponents on worker representation and to resolve other issues, including whether companies operating in one country only can convert into SEs.

EU officials believe a deal is closer than at any time in the last 28 years, and achievable. They also agree that rejection of the UK's proposals next Thursday would end chances of agreement for years, forcing companies to pursue other methods for simplifying pan-European operations.

Supporters say business would be better able to respond to pressures for economic globalisation

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INTERNATIONAL

OIL PRIVATISATION PREMIER SAYS GOVERNMENT WILL GO ON WITH PROJECTED SALE OF PART OF ITS STAKE IN TWO COMPANIES

Kazakhstan affirms oil sell-off plans

By Charles Clover, Robert Cowine and Caroline Salt in Astana, Kazakhstan

Kazakhstan's prime minister, long thought to be the main obstacle to privatisation of the country's strategic oil industry, said yesterday he was in favour of oil privatisation "if done correctly". He also affirmed the government would proceed with plans to sell part of its share in two oil companies, probably later this year.

Nurlan Balgimbayev said in an interview with the Financial Times: "You can

write that Balgimbayev is against incorrectly done privatisations but in favour of correctly done privatisations."

While serving as oil minister before being appointed prime minister last month, Mr Balgimbayev earned a fearsome reputation in the government for battling against the privatisation of oil assets such as the Shymkent refinery and the Kunkol oil field, both sold in 1996. In February he used his first press conference since becoming prime minister to declare a halt to fur-

ther privatisation of the oil industry, which has attracted the interest of a broad range of foreign companies. Since then his remarks have been interpreted as meaning only a halt to further oil exploration concessions.

But many local oil industry experts have continued to think that Mr Balgimbayev is behind the delays in plans to sell remaining shares in two large oil companies, Mangistaumunaigas and Aktiubemunaigas, on the Kazakh stock exchange. They would be the show-

pieces of the country's so-called "blue chip" programme, in which government stakes in five leading companies would be sold in order to jump-start the local share market.

But Mr Balgimbayev said the government would continue with plans to sell the two companies, this year if possible. He said the size of the government stake to be sold would depend on the revenue requirements of the government.

Last year, it sold 60 per cent of Mangistaumunaigas to Indonesia-based Central

Asia Petroleum, and 60 per cent of Aktiubemunaigas to the Chinese National Petroleum Corporation.

This year, the government expects to raise 45bn tenge (\$586m) in privatisation revenues, some 20 per cent of the state budget. As of May 1 it had raised 11bn tenge, according to Uraz Jandosov, the first deputy prime minister. "The blue chip programme is vital for our budget," said Mr Jandosov. But yesterday he said shares in several other leading state companies could be substituted if it proved impossible

to launch the blue chip programme this year.

Possible substitutes include a stake in Kazakhkoll, the holding company for the state-owned shares of Kazakhstan's oil industry.

Mr Jandosov emphasised, however, that the government did not want to modify its privatisation schedule: "It wasn't the decision of the government to start the privatisation of these companies this year, but if there are problems with the five blue chips, then we could put up shares in other companies."

Bahrain economy suffers as Shia dissent simmers

The Gulf state has failed to entice private sector investment as repression and recession feed off each other, writes Robin Allen

A eerie silence descends on the centre of Bahrain's capital Manama after the sun goes down and office workers leave to go home. Drivers continue to clog the peripheral highways late into the night, but few Bahrainis and fewer expatriates are in the city's shops.

Two new shopping malls are almost lifeless. In the semi-deserted hotels Filipinos singers go through the motions of crooning to a handful of businessmen and sailors in civilian clothes from the US naval base.

Away from the lights and the superficial suburban gentility of Manama, the tension is palpable in the poorer Shia villages. The occasional presence of police Land Rovers and black-uniformed security forces are reminders of the social unrest in which 40 people, including five police, have died over the past four years.

In the two years since the minority Sunni-dominated government carried out its first execution of a member of the Shia Muslim majority for "terrorist" activities, Bahrain's state security court, set up by the ruling

al-Khalifa family, continues to crack down on the slightest sign of dissent. Last month the court, whose rulings are not subject to appeal, issued a three-month suspended jail term against five women accused of nothing more than "chanting slogans against the existing political system".

Bahrain is the smallest and least wealthy of the six Gulf monarchies, which own nearly 45 per cent of global oil reserves and some 15 per cent of the world's reserves of natural gas.

It is also the most crowded. The southern half of the island's 600 square kilometres is a restricted zone. Some 2,000 people per square kilometre live in the rest, a population density exceeded elsewhere only by Singapore.

Bahrain's service-based economy depends on gifts of oil and cash from Saudi Arabia. Bahrain has built up a financial services sector, hosting 180 different financial institutions including 45 offshore banking units (OFBUs), which sell or market some 360 mutual funds, as well as oil and gas-based industries. But it has failed,

according to businessmen, to entice private sector investment or to diversify beyond oil and aluminium. Annual per capita income, according to the World Bank and semi-official Bahraini sources, has fallen from \$10,000 in 1985 to less than \$7,500 in 1996, lower than Latvia.

Public dissent, particularly among the Shia majority, has a long history. Bahrain's al-Khalifa family holds all the important cabinet posts and its nominees head the bureaucracy. But the Shia make up 70 per cent of the island's 350,000 national population, half of whom are under 15. Advised by Ian Henderson, a reclusive 70-year-old former colonial intelligence officer in Kenya, widely thought to have retired but still apparently the *de facto* power behind the ruler Sheikh Isa Bin Salman, the state security forces have "slammed the lid down" on physical displays of dissent. According to senior western diplomats, between 1,000 and 2,000 are in jail. Businessmen, academics and lawyers put the figure at more than 5,000.

The crackdown has for the time being pushed the unrest off the streets. But the government's failure to tackle unemployment, more than 30 per cent among the Shia, to curb state corruption, to get the economy moving, or to give a more meaningful role to the so-called "consultative council" has resulted in spreading dissatisfaction, including Sunni lawyers and academics as well as businessmen, who continue to push for economic and social reform.

In a US embassy handout three paragraphs are devoted to warning investors of "corruption, bribery and lack of transparency". One US analyst, a regular visitor, remarked that in Bahrain a substantial revenue from oil sales were unaccounted for. In Bahrain's 1996 budget there are no references to revenue estimates from any of the country's principal state-



A Bahraini girl in front of graffiti saying 'parliament' in Arabic. AP

owned industries. Officials refuse to comment on these and other criticisms. Local publications are censored. Repression has its price. Many in the private sector business community say the economy is flat and repression has made it worse. Repression and recession feed off each other.

For more than two years since the last outbreak of violence in December 1994, the government blamed Iran for fomenting unrest. More recently it has blamed the European Union, and Britain in particular, for allowing the opposition to operate from London and for leading international criticism of the government's abuse of human rights.

A member of the Bahrain Bar Association said: "We want the recall of parliament [dissolved in 1978] a limit to state corruption, release of detainees and the right of

exiles to return home." Critics of the government say one sinister development is the building by the ruling family of a *corpus* around itself by giving nationality to between 8,000 and 10,000 Sunni families from Jordan, Syria, Pakistan and Yemen, whose men, working in the security services, would be loyal to the al-Khalifa family should unrest break out again on a scale which can no longer be contained.

"This is a war of attrition," said one lawyer. "The government can continue to own the main sectors of economic activity and clamp down on unrest, but unless it creates jobs and gets the economy moving, pressures from a rising population, from the lack of self-sustaining private sector investment, and increased unemployment will force their own changes."

WORLD TRADE

Music group tries price harmony

By Alice Rawsthorn

PolyGram, Europe's largest music group, will launch two experimental promotions next month in which it will sell selected albums at the same wholesale price throughout Europe.

The promotions, which involve a dozen Rolling Stones' albums and "Best of" compilations by stars such as Elton John, Bon Jovi and Bryan Adams, come at a time when record companies face growing pressure to reduce price differentials across Europe in the

approach to European Monetary Union.

PolyGram, which is poised to be taken over by Seagram, the Canadian entertainment group, in a \$10.6bn deal, declined to disclose details of the promotions. However, it confirmed that it would be selling selected albums at identical prices in Europe on an experimental basis for a limited period starting in early June.

Traditionally, record companies have priced albums differently in each European country. The price is determined by a combination of

exchange rates, local trading conditions and the stature of the artist in that market.

Typically, the wholesale price of an album varies by 10 per cent between France, Germany the most expensive European country for recorded music, and Sweden, which is the cheapest.

Until recently, multinational music groups have been anxious to maintain price differentials across Europe to protect their profit margins in more expensive markets such as France and Germany.

However, record compa-

nies have found it increasingly difficult to control the flow of products between various European countries since the abolition of border controls. The free flow of goods, coupled with advances in digital communications, has enabled record retailers and wholesalers to purchase albums cheaply in weak currency markets, such as Italy or Sweden, to sell them in stronger currency countries, notably the UK.

This increase in parallel imports, coupled with concern that consumers could

object to paying different prices in different countries after the introduction of a common currency, has prompted several multinational music groups, including PolyGram and Bertelsmann, to review their European pricing strategies.

In next month's promotions, PolyGram will sell 12 Rolling Stones albums, mostly recorded in the 1960s, at identical wholesale prices throughout Europe. The "Best Of" albums will be sold at the same price in continental Europe but priced differently in the UK.

US protests against subsidised EU barley

By Nancy Dunne in Washington

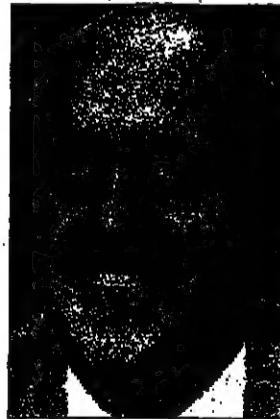
A 30,000-tonne sale of subsidised Finnish barley will be met by protesting farmers and a formal US retaliation when it docks this week at the Port of Stockton, California.

US officials from the agriculture and state departments and the trade representative's office have been meeting to determine what action is needed to discourage further subsidised sales. Dan Glickman, US agriculture secretary, said the European Union could not "expect our farmers to pay the price of their distorted farm policies".

It is believed that the shipment is being subsidised at a rate of \$51 per tonne - which would undercut US prices by about 20 per cent per bushel. US farmers are blaming an announcement of the subsidised sale for a drop in barley prices earlier this spring. Madeleine Albright, US secretary of state, sent a protest letter to Jacques Santer, European Commission chairman, on Tuesday warning the US will respond in an "appropriate" fashion. The letter indicates how seriously the US regards the threat of trade war over the issue, as secretaries of state rarely become involved in agriculture trade disputes.

Grains farmers are furious about the shipment. "Wheat will be next if the US fails to take decisive action to stop any further subsidised sales of European grain into the US market," said Bill Flory, president of National Association of Wheat Growers. "We must send the message loud and clear that dumping must not be tolerated."

The timing of the shipment sale is particularly sensitive. Farm prices are gen-



Glickman: EU cannot 'expect our farmers to pay the price'.

erally lower this year, and US farmers are to receive less government help under the "Freedom to Farm Act".

Mr Glickman is being urged to resurrect the US export subsidy programme to subsidise US barley in third markets where the US and EU compete head-on. He could also impose countervailing duties to block future subsidised barley imports.

Franz Fischler, EU agriculture commissioner, defended the sale, calling it a reflection of high US barley prices compared with world prices. "The particular consignment in question... appears to be the result of very particular situations both as regards the exporter in Finland and the importer in the US, both of whom are private operators over which neither the Commission, nor I understand, the US government, has any control," he said. Mr Flory said US farmers had already been hurt by "heavily subsidised and unfair pricing practices of the EU in offshore markets". He asked the US administration to seek immediate assurances from the EU that subsidies would not be used to gain further access to the US grain market.

Hong Kong businesses look to the north for their star turns

As the territory's economic engines lose power, opportunities are opening up on the mainland, writes John Ridding

As Hong Kong's economy grinds to a halt and the Asian crisis continues to deepen, the territory's tycoons are fixing their gaze more firmly to the north.

An aquarium park, a housing project and a power plant were among the investment projects agreed by Cheng Kar-shun when the Hong Kong businessman paid a visit to the central province of Shanxi last month. His New World Development, the biggest investor in China, said a further RMB3bn-RMB4bn (\$380m-\$480m) would be spent in the province over the next three years.

A few days later, and a few hundred miles to the south, Cheung Kong Infrastructure (CKI) signed a contract to invest in two water treatment plants in Hunan province. The deal added to the RMB13bn in committed investment by the group, the infrastructure arm of Li Ka-shing's business empire.

These projects are vital for China, which faces a collapse in investment from south-east Asia, Japan and Korea and which requires foreign capital and expertise to fuel its slowing economy. For Hong Kong they point to a significant structural shift. Although it has long been

the biggest investor in China, the mainland has grown in importance as the territory's traditional engines, from property to retail, have lost power.

But the strategy is not without potential setbacks; profit in China is often elusive, and there are risks for the territory in tying its fortunes too closely to the mainland.

"The role of Hong Kong in China is increasing every day, but we must not forget our international role," says Vincent Lo, chairman of Shui On, the property and construction group. Hong Kong cannot afford to become just another Chinese city, he says. It must retain its role as a regional hub.

For now, however, attention is focused on the north. Shui On, for instance, will soon be topping out the first three blocks of a huge housing project in Shanghai. On completion the development will count 91 towers, each 34 stories high. The Yangtze basin, says Mr Lo, is particularly promising. The fact that two of his nephews have left Hong Kong to seek their fortunes in Shanghai is a sign of the times, he says.

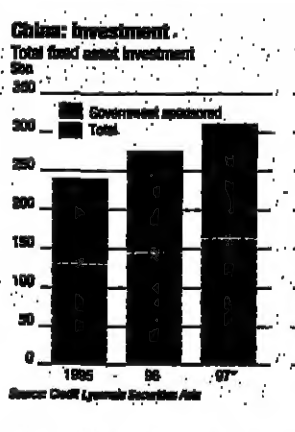
Henderson, New World and most of the other big Hong Kong developers are becoming involved in housing projects, a trend which is likely to grow. Zhu Rongji, China's premier, has made housing a priority, while the developers face lacklustre prospects in Hong Kong's battered property market.

Infrastructure is an even bigger draw. "Almost all our capital investment is in China, and we are not going to slow down as a result of the economic situation," says H.L. Kam, group managing director of CKI. "In 1997 we invested close to half a billion Hong Kong dollars. We should at least achieve that this year."

Many of Hong Kong's conglomerates and the territory's big developers are well positioned for their mainland forays. Apart from their proximity, strong balance sheets ease the problem of financing, a growing constraint as banks adopt a cautious stance towards the region.

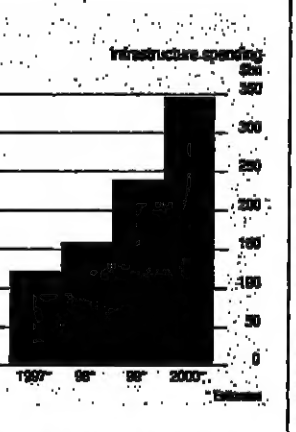
Hong Kong investors have also developed management networks on the mainland. "In the past 10 years we have been involved in over 50 investment projects in 10 provinces," says Victor Chan, chairman of First Eastern Investment.

The result, he says, is that his company is poised to make bolder moves on the mainland. Opportunities will be increasing, he believes, by the reform of state-owned enterprises and the withdrawal of other Asian investors who are seeking to cover losses at home.



Casualties are increasingly common, however, and easy opportunities are rare. The risks are also as real as before. New World, one of the most experienced mainland investors, became entangled in a protracted legal dispute over an airport scheme in Wuhan, delaying the receipt of revenues. About half of the toll road projects covered in a recent study by Goldman Sachs fell short of traffic projections last year, while investment analysts say the economic slowdown is gathering pace and warns of a devaluation of the renminbi.

Faced with these hazards, Hong Kong investors have tailored their strategies. Many require a guaranteed minimum rate of return - 15 per cent in the case of Shui



On's housing scheme. Contracts are frequently covered by an array of safeguard clauses in case of dispute. But the degree of protection afforded by such measures is questionable. "Let's just say that you never want to test whether the legal clauses work," says one Hong Kong director.

CKI and many of the other big Hong Kong conglomerates are seeking to maximise returns by concentrating their projects. In Shantou, for instance, CKI has built roads and power plants, while other companies in Mr Li's stable have built hotels and a container terminal. "Each project adds value to the others," says Mr Kam.

The result is a growing number of Hong Kong strongholds in the big mainland cities. That may provide protection against the pitfalls of Chinese projects. But it is a clear signal that the fortunes of corporate Hong Kong are tied ever more closely to developments across the border.

Worries grow as maritime trade with Indonesia slows

By Sheila McNulty in Kuala Lumpur

Indonesia's maritime trade has come to almost a complete standstill in recent days, raising fears of a slowdown for the region's shipping and for the Port of Singapore, which handles around 60 per cent of Indonesia's container trade.

The PSA Corp, which controls Singapore's port, insists business is sound. Indonesian throughput handled at the Port of Singapore Authority was "still healthy", it said. "This is because, while imports have slowed, the demand for

exports has increased due to the rupiah's devaluation."

But Richard Stokes, director of regional marine research at Indosuez W.I. Carr Securities in Singapore, says while 10 days or so ago containers leaving Jakarta were overflowing, exporters had difficulty finding ships for their goods because the fall in imports meant there were few inbound vessels.

"Delays of two weeks pre last week's troubles can now be expected to at least double," Mr Stokes said. "For exporters facing tight delivery dates, what may start out as penalties for late delivery can easily lead to

outright cancellation."

He says a 60 per cent reduction in inbound cargo during the first quarter of this year forced the cancellation of Hong Kong's Orient Overseas Container Line's new Indonesia/Japan service. And Singapore's Neptune Orient Lines reported 80 per cent load factors out of Europe and as low as 40 per cent out of the US to south-east Asia.

There is also the likelihood of an increase in piracy. "What has become a mounting problem over the last two years is set to assume crisis proportions," Mr Stokes said.

NEWS DIGEST

AFRICAN ECONOMY

Insufficient savings rate likely to hit investment

Africa's economy is expected to grow 4 per cent this year but the region's low savings rate is not enough to finance the investment needed for rapid and sustained economic expansion, the Africa Development Bank warned yesterday.

The average savings rate of about 17 per cent of GDP "is barely sufficient to support higher investment required for growth", said the Bank in its annual report, and is well below the 24 per cent average of developing countries as a group.

The Bank, which marks its 25th anniversary this year, estimates that Africa's real GDP grew at an estimated 3.7 per cent in 1997, as against 5 per cent in 1996 and an average annual growth of 1.9 per cent for 1990-95.

Although 34 countries recorded growth above 4 per cent, the report notes that larger economies, notably South Africa, Nigeria, Morocco and Congo, registered low or negative rates. The continent's external debt stood at \$315bn at the end of 1997, with Algeria, Egypt, Nigeria, South Africa, Morocco and Ivory Coast accounting for more than half.

About \$5.5bn of foreign direct investment went to Africa in 1997, unchanged from 1996, amounting to 1.5 per cent of the total global investment flow. Michael Holman, Africa Editor

IRAN-SAUDI RELATIONS

Co-operation agreement signed

Iran and Saudi Arabia yesterday agreed to co-operate in a broad range of fields ranging from business and investment to culture and sports. The co-operation agreement was signed in Tehran by Prince Saud al-Faisal, Saudi foreign minister, and his Iranian counterpart, Kamal Kharrazi, according to Tehran radio.

Prince Saud's two-day visit is seen as a landmark in improving relations between the two Muslim states after two decades of rivalry for power and influence in the region.

The agreement defines co-operation in economic, commercial, technical, scientific, cultural, sports and jobs investment fields, the state-run radio said. It includes the industrial and mining sectors, transport, trade, providing facilities for the two countries' businessmen and the expansion of tourism. The ministers also stressed co-operation in providing consular services, expansion of communications services, air and sea transport and environmental issues. Reuters, Tehran

UN PALESTINIAN AGENCY

Donors to urge reforms

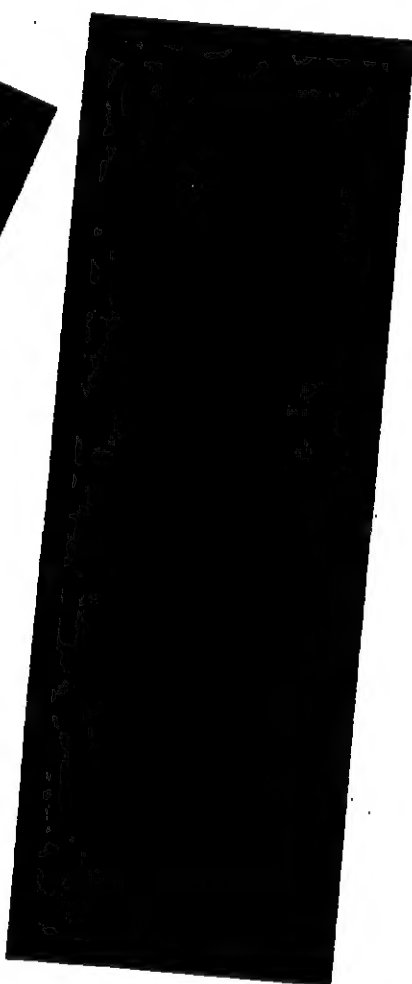
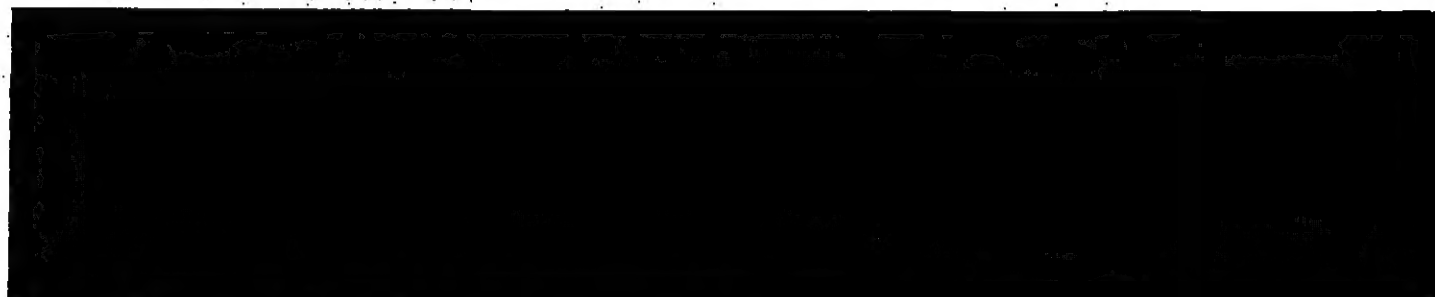
Donors will today urge the United Nations relief and works agency (UNRWA) for Palestinian refugees to introduce reforms as they look at ways to bridge the agency's \$20m deficit.

At a donor conference opening in Amman, the UK - the sixth largest donor - will announce a 35 per cent increase in its contribution to UNRWA from the \$8m provided in 1997-1998 in an expression of support for the plight of Palestinian refugees.

The fate of the 3.4m refugees, scattered across the Gaza Strip, the West Bank, Jordan, Syria and Lebanon, is one of the thorniest issues in the decades-old peace process and is to be dealt with if and when final status talks begin.

Donors believe UNRWA is in need of administrative reform and some countries are reluctant to increase their funding before changes are implemented. Rula Khalaf, London

Risk is our business.



One of nature's most dangerous creatures.

The wingbeat of a butterfly in China – so the theory goes – can trigger a hurricane which rages weeks later over Florida. Meteorologists call it "the butterfly effect": Minute disturbances, drastically amplified, can have catastrophic consequences.

This is true not only of the weather, but of all so-called dynamic systems. For example the world economy. Whether the causes be big or small, the financial knock-on effects of coping with catastrophe – or the mere threat of it – may be anything from large-scale losses to high insurance costs and unstable balance sheets.

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White House seeks delay in China vote

By Nancy Dunne in Washington

The US administration is pushing for a delay in the annual vote on China's trade status, in an effort to stifle an embarrassing debate before President Bill Clinton leaves for a summit in Beijing on June 24.

The president has until June 3 to renew China's Most Favoured Nation trade status, an annual process which each year becomes a review - highly resented in Beijing - of China's actions on human rights, weapons proliferation and trade. After he renews MFN, Congress has 90 days to vote to overrule the president.

The annual MFN exercise started in the late 1970s and no Congress has yet overruled a presidential decision to grant the special trade status to China.

The president is expected eventually to push through MFN for China. But the process will be complicated by controversy about Chinese influence over the Democratic party, which has soured the atmosphere and brought heavy criticism down on the administration.

Congress is expected to agree to delay the vote, but observers believe attacks on the administration will only be deferred until after the summit. "This way Republicans get to rain on any positive publicity the president gets out of the trip," said one Democratic aide on Capitol Hill.

MFN status imposes the same low-level tariffs on Chinese goods as apply to imports from most other US trading partners. The US business community mounts a vast lobbying effort whenever the status seems in jeopardy. MFN status was granted even after the Chinese authorities' violent repression of protests in Beijing's Tiananmen Square nine years ago.

The administration is trying to head off two controversies. First, it became known that Johnny Chung, a California businessman who contributed heavily to the Democratic party, received some of his money from Liu Chaoying, the daughter of China's most powerful military official. These revelations put Ms Liu at the centre of a Justice Department investigation into alleged Chinese attempts to influence the 1996 elections.

Republicans have also fiercely criticised the president for issuing an export licence for the launch of a US satellite aboard a Chinese rocket. The satellite was built by Space Systems/Loral, whose chairman had made large contributions to the Democratic party. When the licence was granted, the company was reported to be under investigation by the Justice Department for passing sensitive information to the Chinese.

Feature, Page 13

Catastrophe bonds are ready, but where are the hurricanes?

Wall Street investment banks have invented products allowing calamity risks to be securitised and traded, but 1997 proved to be a disastrous year for disasters. John Authers reports

Over the next few months Hurricane Otto or Hurricane Agatha may give Wall Street's newest product a much needed boost.

Names have already been designated for the annual US hurricane season, which starts on June 1. Hurricanes have the power to inflict severe damage on the profits of US insurers, as was demonstrated most dramatically when Hurricane Andrew hit southern Florida and Louisiana in 1992, bringing insured losses of \$15.5m in its wake.

This was the worst of a series of catastrophes - others included Hurricane Hugo in 1989, which cost \$1.2bn, and the Northridge earthquake of 1994, which cost \$12.5bn. This led the industry to look for alternative ways of financing risks, and increasing their capacity.

Wall Street believed it had the answer. All the largest investment banks have devoted resources to inventing products which allow catastrophe risks to be securitised and traded on the market. All the instruments involved are complicated, but they usually involve insurers issuing bonds and retaining the right to withhold interest payments if a given severe weather event or hurricane occurs. (A catastrophe is any single event creating losses of \$25m or more for the industry.)

If there is no catastrophe, investors will generally receive a return slightly better than would have been available from investing in

blue-chip corporate bonds. If disaster strikes, on the other hand, they lose their interest payments, while in some of the products launched some of their capital might also be at risk.

This is different from conventional reinsurance, which involves insurance companies in paying premiums to a reinsurance company to cover themselves against losses above a particular level.

The argument was that the total volume of reinsurance business which US companies could safely write, estimated at about \$260bn by A.M. Best, the rating agency, was dwarfed by the total amount traded on world securities markets. Insurance risks could eventually be traded in the way that mortgages are now securitised and traded like bonds.

One investment banker said securitised catastrophe bonds would replace traditional reinsurance "as sure as night follows day". After a number of failed attempts in 1996, several catastrophe bonds were successfully launched ahead of last year's hurricane season.

According to the New York-based Insurance Services Organisation the total amount raised by these bonds so far is \$1.3bn in seven separate deals.

But, unfortunately for the investment banks, last year proved to be the most lenient hurricane season in a decade, with total US catastrophe losses of only \$2.6bn. Annual losses had been at

least double this every year since 1991.

The first quarter of this year was also relatively mild for insurers, with \$1bn in catastrophe losses. Investment banks pointed out that this would reassure investors and encourage them to buy catastrophe bonds in future. But it also sharply reduced the potential supply of the bonds.

Reinsurance companies took the opportunity to increase the amount of business they could underwrite, and to cut their prices, making it much harder for the securities industry to compete.

It now seems unlikely that many more catastrophe bonds will be launched this year than last. Only one such bond, worth \$64m, has been launched so far, although several other deals appear to be near completion.

Senior insurers believe it will be many years until the bonds take a big share of the market. According to Hank Greenberg, chief executive of American International Group, the largest US insurer: "As long as reinsurance rates are as low as they are, I don't think there's a big market for the financial sector to securitise. The financial sector will be there, and there will be a time for it. But at the moment there's no need for it, and it's not going to break down the walls in the foreseeable future."

Mr Greenberg's view is typical. While in 1996 discus-



sion of competition from securities markets dominated the industry in the US, most now believe the trend will take much longer to become established.

Ramani Ayer, chief executive of The Hartford, another of the largest US insurers, takes a similar view. He points out that it will be difficult for the financial sector to duplicate insurers' expertise in pricing risks.

He said: "When you are able to take a portfolio of risks then you should be able to securitise that portfolio. There's a lot of belief that it's a trend which will happen with time. But I don't see that happening dramatically or happening soon, because there's a very substantial amount of competency which is needed to underwrite reinsurance products, and securitising isn't the only component. Insurance involves a lot more than just the transfer of risk."

This leaves the nascent market for catastrophe bonds in need of another serious weather event on the

scale of Hurricanes Andrew or Hugo.

Jeanne Dunleavy, an insurance analyst at A.M. Best, said: "Unless you are going to be a pioneer, people can't economically justify going to the capital markets at this time, instead of taking traditional reinsurance. I think another big catastrophe would cause capacity to dry up and pricing to go up. That would cause people to look for more economical coverage."

She points out that Hurricane Andrew in 1992 created a demand for extra reinsurance capacity, and led swiftly to the creation of a large new reinsurance industry on Bermuda.

But investment bankers are confident of the future for securitised insurance, suggesting it could be applied to risks other than catastrophes, or sold directly to corporations rather than insurers.

One investment banker suggested that capital markets could match the prices on offer from reinsurers. He

said: "Even though the reinsurance markets are less expensive this year than they were last year, pricing in the capital markets has improved at a much more significant rate, and that's a function of investors becoming much more comfortable with the risk analysis that's available to them." He added that the new market would, like the securitised mortgage market before it, need to cross two thresholds before establishing itself.

First, it would need a "critical mass" of different risks, so investors can gain exposure to a range of different weather events and gain the advantage of diversification. Second, it would need a critical mass in terms of the sheer amount of deals written.

But he admitted: "There is one difference, which is that there was no alternative market for mortgage risk. For insurance-related risks, there's already a reinsurance market. It's a cyclical market, and it happens to be very healthy at the moment."

Court ban sought on Argentine gas pipeline

By Ken Warr in Buenos Aires

Greenpeace was yesterday seeking a court injunction against Argentina's gas industry regulator Enargas to halt construction of a \$400m gas pipeline.

The trans-Andean pipeline, planned by the NorAndino consortium - which includes Tractebel of Belgium and Southern Electric of the US - would pass through the Yungas rainforest in northern Argentina. The environmental group says the pipeline threatens Argentina's dwindling jaguar population.

Its officials yesterday met Susana Cordoba, federal judge, and Jorge Maiorano, national ombudsman, to try to halt construction on the grounds that Enargas did not hold a public hearing.

"We are not against the pipeline in itself," said a Greenpeace spokeswoman, Claudia Molina. "We just don't want it to pass through this sensitive area. We have also long opposed forestry projects there."

The NorAndino project is one of three rival schemes in the region aimed at transporting energy across the Andes to serve Chile's power-hungry mining belt. The GasAtacama project, whose main partners are CMS Energy of the US and Chile's Endesa, would transport gas via a more southerly route, away from the rainforest.

Chile's Chilgner has also embarked on a \$750m project to generate electricity from gas in Salta province and transport it across the Andes through a transmission line.

Analysts said there is insufficient demand for all three schemes to be viable. Talks this year aimed at merging the two pipeline projects appear to have foundered.

Any delay to the NorAndino project could be a severe setback. Building work on the GasAtacama scheme is already under way. If the judge rules in favour of Greenpeace, permission to build the NorAndino pipeline would be revoked and a public hearing would be called.

Greenpeace said the Jungas rainforest is the country's most biodiverse region and says the 1,000km pipeline would cut through the home of the endangered jaguars. Only an estimated 200 jaguars, the largest wild cats in South America, are left.

Mexican bank fights charge

By Leslie Crawford in Mexico City

Banca Serfin, Mexico's third-largest bank, is to plead not guilty to charges of money laundering brought by a federal grand jury in the US.

Serfin, as well as Bancomer, Mexico's second-largest bank, and Confia, a smaller financial group recently acquired by Citibank, were indicted last week following a secret three-year investigation

which US officials say exposed a "systematic pattern" of money laundering through Mexico's financial system.

According to the US Department of Justice, Serfin is alleged to have laundered \$7.7m for drug traffickers during the period of investigation.

Bancomer is alleged to have laundered \$20.6m and Confia \$11m. US Justice Department officials said they felt the pattern of money laundering through

these three banks was so systemic it would not be enough to indict individual employees.

In a statement, Banca Serfin said it had not had access to the evidence presented by US authorities before the grand jury, but it would "defend its innocence".

Bancomer said it had asked William Isaac, former chairman of the Federal Deposit Insurance Corporation in the US, to conduct an independent investigation of the accusations.

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Tung Chee-hwa: "We are in the depth of a major economic adjustment, the result of which may be prolonged and painful" Reuters

Hong Kong sees decline in output

By John Hidding in Hong Kong

Hong Kong's economic downturn is much more severe than anticipated, with first-quarter growth figures due tomorrow set to show a fall in output and to signal the territory's first recession since 1985.

Donald Tsang, financial secretary, said the first quarter had been "very rough".

Mr Tsang declined to comment on the first quarter statistics, but official sources and economists said first-quarter output had fallen by as much as 2 per cent year-on-year. Many private economists expect a further fall this quarter.

"We are in the depth of a major economic adjustment, the result of which may be prolonged and painful," warned Tung Chee-hwa, the territory's chief executive. Speaking late on Tuesday, he said economic growth would fall substantially and may even be negative.

Mr Tsang's statement, his bleakest assessment of the territory's economic performance, stunned investors. The benchmark Hong Kong Index fell by 5.3 per cent to 8,583, below the psychological 9,000 level and almost 25 per cent below its March high.

Investment analysts said the government appeared to have waited until after this week's legislative election to signal the severity of the downturn. Last weekend Mr Tsang said he saw no need to revise his forecast of 3.5 per cent growth for the year.

While Hong Kong has proved relatively resilient in the face of the regional economic crisis, it has been hurt by a rise in interest rates to defend its currency peg to the US dollar. The administration remains committed to the currency link.

Weakening yen threatens to take neighbours down with it

Further falls could have a devastating effect on other east Asian countries needing to export more and threaten the stability of the HK dollar and the Chinese renminbi, writes Paul Abrahams

The entrance to the Tokyo headquarters of the Keidanren, Japan's most influential business pressure group, is dominated by an electronic display board. It does not show the Nikkei 225 index, nor the yield on the 10-year benchmark bond. Rather, it provides just one figure - the dollar-yen rate.

In recent days, the executives entering the building have been glancing up at the board with more concern than usual. Whereas in 1995 they were anxious about the yen's strength - it reached a high against the dollar of ¥80 - now they are worried by its weakness. Since February, the yen has depreciated more than 11 per cent. Last night it closed in Tokyo at ¥137.5.

The question is no longer whether the Japanese authorities can halt the slide - they almost certainly cannot - but whether they can control the speed of its decline. Only last month analysts were talking privately about the yen reaching ¥150 late this year. Now some are even mentioning a figure of ¥180.

Such a fall could have a

devastating effect on other east Asian countries for whom Japan is the biggest, or second-biggest, export market. It could also put the currencies of Hong Kong and China - which are pegged to the US dollar - under more pressure.

"Even a rate of ¥160 or ¥155 to the dollar is fairly scary," says Ron Bevacqua, economist at Merrill Lynch in Japan. "The Chinese and Hong Kong economies are already decelerating sharply, and a yen that cheap could force them to devalue - not this year perhaps, but possibly next. That would lead to further competitive devaluations across the region, plunging the region back into crisis. I don't want to be too bearish, but it's a feasible scenario."

At the heart of the problem are the interest rate differentials between assets in the US and Japan. US treasury bonds are offering a yield of about 5.8 per cent. Japanese long bonds about 1.4 per cent. "For Japanese investors, the combination of the yield and the depreciation offers a 16 per cent differential - that's a powerful incentive to go offshore."

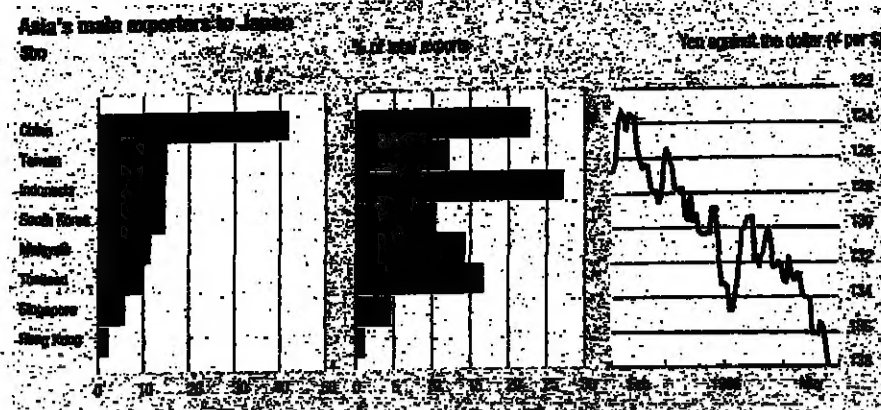
says Michael Naldrett, economist at Dresdner Kleinwort Benson in Tokyo.

These differentials are a stark reflection of the respective strengths of the US and Japanese economies. The consensus forecast for Japanese economic growth this year is a contraction of 0.4 per cent. The US economy is expected to expand 3.1 per cent.

Even though this has been known in the market for some time, Japan's terrible fundamentals have not been reflected in the exchange rate. This is because investors believed the Bank of Japan (BoJ), possibly with the US authorities, would intervene to support the yen.

What has caused the recent acceleration in the yen's slide was a change in perception of BoJ and US Treasury policies. At the end of last week it became apparent that a substantial minority of the BoJ's policy-making committee believed Japanese short-term rates, already at a record low of 0.5 per cent, should be cut further.

This appeared to suggest the Japanese authorities were relaxed about further



depreciation, an attitude apparently confirmed by the lack of intervention in the currency markets this week. The last attempt cost Japan 10 per cent of its exchange reserves and had no lasting impact in changing sentiment.

As for the US, on Monday, an unsecured article in US News and World Report magazine suggested Robert Rubin, the US Treasury secretary, was willing to let the Japanese currency plunge if that was the only way of keeping the world's second biggest economy from collapsing.

"Even though the report was denied, it merely stated the obvious," says Mr Bevacqua at Merrill Lynch. "The US Treasury views a strong dollar as deflationary, slowing down the economy without the need to raise interest rates. Rubin doesn't want the yen falling off a cliff. If the yen is going to depreciate, he wants it to decline in an orderly manner."

Even so, an orderly decline would provide little relief for the rest of Asia. True, over the past 18 months, on a trade-weighted basis, the yen has actually appreciated. But the rest of Asia needs Japan, which accounts for 70 per cent of the region's gross domestic product, to import its goods in large and increasing quantities.

That is not happening. In the first 10 days of May, imports into Japan collapsed 28 per cent year-on-year. A depreciating yen will only hit imports more.

Relief will come only when the economic fundamentals in the US or Japan change, insists Peter Morgan, economist at HSBC in Tokyo. Changes in Japanese tax regulations could change sentiment, but such reforms are not expected until later this year at the earliest. Otherwise a surprise bailout of Japan's troubled banking system could prevent higher unemployment and boost domestic demand.

The alternative is a crash in the US equity markets, which would have its own worrying global consequences.

Plan for public funds to write off bad loans

By Gillian Tett in Tokyo

Japan should use public funds to help write off the banks' mountain of bad loans, a politician in Japan's ruling Liberal Democratic party proposed yesterday.

Public money should also be spent to force through a wave of mergers among the banks, said Yoshiaki Watanabe, the LDP member.

Mr Watanabe did not pro-

vide details of his plans but his comments will attract market attention because earlier this year he was the first LDP member to propose injecting public funds into the banks' capital base.

Since then ¥1,800bn (\$13bn) has been injected into the banks.

The comments come amid growing signs that the LDP will soon unveil a second set of proposals to tackle

Japan's financial problems. Earlier this month Ryutaro Hashimoto, Japan's prime minister, pledged new policy steps to a meeting of the Group of Eight industrialised nations. In recent days the LDP has been engaged in intensive internal discussions about the bad loan issue.

The debate has been given added urgency by the release of worse-than-expected bank-

ing results last week. These showed that total problem loans at the top 18 banks had risen to ¥22,000bn from earlier estimates of ¥16,000bn because of the introduction of tighter, US-style accounting standards.

The ideas currently being discussed in the LDP include a proposal to establish a new institution that would clear the bad loans by:

- Purchasing real estate or other collateral from banks;
- Giving banks tax breaks if they make bad loan disposals;
- Establishing a new judicial structure to settle loan disputes and combat the threat posed by *yakuza* gangsters;
- Setting up a public bank to purchase the healthy parts of collapsed banks.

The debate has prompted hopes among some western diplomats and investors that the Japanese government is finally preparing to take sweeping measures to resolve the financial problems.

The banks' problems yesterday prompted Moody's the US credit rating agency, to downgrade the debt of Bank of Tokyo-Mitsubishi, Dai-ichi Kangyo, Sakura, Industrial Bank of Japan and Sumitomo.

IMF widens Jakarta contacts

By Gwen Robinson in Jakarta

The International Monetary Fund has taken the unprecedented step in Jakarta of arranging discreet meetings with a wide range of Indonesian opposition leaders, labour activists and pro-democracy campaigners in an effort to forge new political ties across a broad spectrum.

For the IMF, which has frequently insisted its work precludes political involvement, the meetings constitute a significant break with established procedures and a fundamental shift in its

approach to Indonesia.

The move is a clear acknowledgement that Indonesia's intense political upheavals cannot be separated from the course of the economy.

More significantly, it suggests the new government of Jusuf Habibie, who last week replaced former President Suharto, is being viewed as a transitional regime.

Michel Camdessus, IMF managing director, recently rejected suggestions that the Fund should be more concerned with the political situation in Indonesia and insisted that its work was

"economics - not politics".

Last week, however, Mr Camdessus and other IMF executives stressed political stability as a prerequisite for further economic assistance. Some critics said the IMF's poor political judgment and lack of information led to the breakdown of two earlier economic reform programmes linked to the IMF-sponsored \$42bn rescue package.

The third reform accord, signed weeks before Mr Suharto's resignation last Thursday, was suspended in the ensuing turbulence.

Hubert Neise, the Fund's Asia-Pacific director, arrived

in Jakarta on Tuesday to meet Mr Habibie and economic ministers. But from today he will meet a range of opposition leaders including Amien Rais, leader of one of the country's largest Muslim organisations and a fierce critic of Mr Suharto.

Mr Neise will also meet Megawati Sukarnoputri, daughter of the late President Sukarno; Muchtar Pakpahan, a labour activist and former political prisoner who was released from prison on Tuesday; and five other opposition figures including Emil Salim, an economist and former cabinet minister.

Government may take control of Indonesian bank

By Sander Thomas and Gwen Robinson in Jakarta

Indonesia's government is expected to take control of the country's largest private bank, owned by relatives and friends of former President Suharto, raising concern that his resignation is also bringing down large business empires.

Economists and business executives said the Indonesian Bank Restructuring Agency (IBRA), set up earlier this year to salvage the troubled banking sector, would take control of Bank Central Asia (BCA). The agency may nationalise part of BCA's equity to compensate for big central bank loans to the bank in response to an ongoing rush on its deposits.

Officials at BCA and the agency denied rumours the bank had already been taken over. A central bank staff member said the decision had "not yet" been taken.

BCA reported Rp62,688bn (\$4.8bn) in assets by December 31, 1997, including just over Rp40,000bn in deposits or 12 per cent of the total deposit base in Indonesia at the time. Two of Mr Suharto's children own 30 per cent of BCA, while executives of Salim Group, Indonesia's largest conglomerate, own 70 per cent. Trading in Indo-

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NEWS DIGEST

NUCLEAR WEAPONS

India ready for 'no first use' accord with Pakistan



India yesterday said it was ready to negotiate a "no first use" nuclear agreement with Pakistan, its south Asian rival which is also threatening nuclear test explosions, and other states. Atal Behari Vajpayee, prime minister, said in a speech to parliament that while India's recent tests demonstrated the country to be a "nuclear weapon state", Delhi would continue to pursue global nuclear disarmament in international forums and refrain from exporting nuclear technology. Meanwhile, activists of the Communist Party of India were

masked of Mr Vajpayee and Shastri Swami, information minister, at a demonstration near parliament (left) to protest against India's recent nuclear tests.

Mr Vajpayee's remarks disappointed western diplomats, who had hoped that India would make a more formal commitment to signing up to the Comprehensive Test Ban Treaty, a move India has so far refused.

The Indian statement came amid unconfirmed US media reports that Pakistan had completed preparations to conduct its own nuclear test, reports which senior Pakistani officials pointedly failed to deny. Mark Nicholson, New Delhi

JAPAN POWER SECTOR

Companies eye cuts in bills

Large Japanese companies may from next year be able to cut their electricity bills by up to 30 per cent by buying directly from independent power producers (IPPs) rather than regional electricity monopolies.

A government advisory panel yesterday put forward plans to allow independent power producers - mainly companies in industries such as steel and chemicals - to sell excess electricity they generate directly to large power users. IPPs tend to price electricity at 20 to 30 per cent below standard rates.

The panel, advising the Ministry of International Trade and Industry (MITI), will carry out further studies of how the liberalisation should be implemented, but it could take effect as early as the next financial year.

Recent deregulation allowed IPPs to bid to supply excess power to the regional electricity companies, or to use the electricity companies' lines to transmit power to other sites of the same company.

But so far many more IPPs have bid to sell electricity than have been accepted by the power companies, and they are not currently allowed to sell directly to end users.

The high cost of electricity in Japan has prompted an increasing number of companies to generate more of their own power. Bethan Hutton, Tokyo

KARACHI STOCK MARKET

Security tight after rioting

The management of the Karachi stock market, Pakistan's main bourse, yesterday doubled the number of private security guards across its trading hall and sought police protection, following riots by traders on the floor on Wednesday. Traders had protested at the proposed introduction of computerised trading, which they say could cost 2,000 jobs. Yesterday, however, the violence appeared to have ended.

The KSE-100 share index closed 6.1 per cent down yesterday. Share prices have fallen consistently in the past two weeks, mainly driven by anxieties over the fallout for the economy if Pakistan conducts its first ever nuclear test, responding to the five tests by India earlier this month. Farhan Bokhari, Islamabad

LEGAL NOTICES

Invest in Romania!

STATE OWNERSHIP FUND

Advertising release for sale of shares by direct negotiation

The STATE OWNERSHIP FUND, a Romanian public institution based in Bucharest, 6 Stavropoleos Street, sector 3, is offering for sale by direct negotiation according to the Government Urgency Ordinance no.88/1997a 61.496% of the issued share capital of URB RULMENTI SUCEAVA S.A Company, Suceava.

- Registered Office: Suceava, str. Zona Industriala Scheia nr. FN.
- Fiscal Code: R 717936.
- Registration no. at Commercial Register Office: J 33436/1991.
- Issued stock capital, according to the latest records at the Commercial Register Office: 154,238,675 thousand ROL.
- Turnover in 1996: 43,593,699 thousand ROL.
- Net profit in 1996: 2,363,514 thousand ROL.
- Main scope of activity: designing, manufacturing and marketing of bearings.

Total number of shares at a nominal value of 25,800 ROL each: 6,149,547.

The share ownership structure is as follows:

State Ownership Fund	61.496%
Financial Investment Company Moldova	29.014%
Shares owners through mass privatization	9.007%
Shares assigned to the manager	0.007%

The offer price for the 61.496% issued share capital, i.e. 3,794,032 shares is 28,086,423 USD.

The Company PRESENTATION FILE required for subscription to the offer may be obtained at the State Ownership Fund, BUSINESS CENTRE, OFFERS DIVISION of the International Relations Department, Bucharest, 6 Stavropoleos Street, sector 3 phone 04-01/310495; 3123130; 3124231 and fax 04-01/3121841, daily between 8.00 and 16.00 hrs. at a price of 2,500 USD for foreign citizens or legal entities, or ROL equivalent at National Bank exchange rate applicable on the PRESENTATION FILE purchase date for Romanian citizens and legal entities. This sum has to be transferred in advance to the State Ownership Fund account: no. 2511000000242300008 in USD at the Romanian Bank for Foreign Trade (BANCOREX) for foreign investors, or no. 2511000000242300008 in ROL, at the Romanian Bank for Development-Bucharest Branch (BRD-SMB) for Romanian investors.

Further information about the company's privatization may be offered by S.O.F.'s INTERNET SITE at the address www.sof.ro.

The minimal environmental conditions accepted for URB RULMENTI SUCEAVA S.A. are included in the company PRESENTATION FILE.

THE PRESENTATION FILE will be released on presentation of:

- a copy of the payment order for the subscription fee;
- identity card (or passport for foreign citizens);
- certificate from the issuing company.

In order to participate in the negotiations, bidders are required to present evidence of putting at the Seller's disposal a guarantee of a participation i.e. 5,522,510 thousand ROL or 842,592.69 USD as follows: Romanian citizens or legal entities may pay cash to the State Ownership Fund, to account no. 2511000000242300008 in USD at the Romanian Bank for Development - Bucharest Branch (BRD-SMB); foreign citizens or legal entities may pay cash to the State Ownership Fund, to account no. 2511000000242300008 in USD, at the Romanian Bank for Foreign Trade (BANCOREX); alternatively the bidders may instruct the bank where they hold their account to release an unconditional bank guarantee valid for 120 days, after the submitting offer.

Only bidders that prove they acquire the Presentation File may submit their PURCHASING OFFER.

Bidders should submit the PURCHASING OFFER and the documents stipulated in the Section "C" of the PRESENTATION FILE, to the State Ownership Fund, Offers Division at the above mentioned address, in a sealed envelope, prior to 16th of June 1998, 16th hrs. local time (from deadline for submission).

Watchdog to consider ban on takeovers by 'creeping'

By Jane Martinson, Investment Correspondent

The Takeover Panel is set to review the so-called "creeper" provision which allows shareholders to build up stakes gradually in a company until they gain control.

Allister Defries, director general of the panel, is to recommend that the provision is abolished at the next meeting of the panel in July. "I think there is a strong intellectual argument for changing the code, but the panel has to decide," he said yesterday.

The move follows the controversial bid for Astec, the electronic power supply group, by Emerson Electric. The US group started with a large stake in its target and achieved control by buying up to 1 per cent each year.

This is allowed under rule nine of the Takeover Code governing mandatory bids. Companies normally have to launch a bid if they hold more than 30 per cent. But there are several circumstances under which they can own up to 49.9 per cent with the consent of other shareholders.

Astec's minority shareholders failed in their unprecedented court challenge against Emerson earlier this month. Although Emerson is outside the panel's jurisdiction as a Hong Kong-based company, several investors felt the case highlighted an unintended consequence of the "creeper" provision.

One institutional investor said yesterday: "We are trying to avoid a repeat of Emerson." Mr Defries says that his decision to put the issue to the panel comes in response to the concerns of these investors.

There could be some opposition to abolition by investors who believe the creper provision provides useful flexibility. When the issue was last reviewed by the panel six years ago, investors argued that there are some instances - for example in investment trusts - where large shareholders may want to buy at a discount without taking control. This review resulted in a reduction in the limit from 2 per cent to 1 per cent a year.

If the 18-strong panel agrees to abolition in July, change could come relatively promptly. Any action could head off the threat of intervention by the government as part of its wide-ranging review of company law.

The panel is set to publish a revised code shortly. It decided to modernise its rules following criticism that it was not doing enough to ensure fair play. Among the changes will be a ban on advisers to companies facing hostile bids buying the target company's shares. Predators making paper bids are also to be prevented from buying up to 10 per cent of their target's shares for cash.

Mr Defries said the planned publication was "at an advanced stage". It had taken longer than expected for administrative reasons.

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NORTHERN IRELAND IN WAKE OF PEACE DEAL, SINN FEIN PRESIDENT ARRIVES IN US FOR PARTY'S BIGGEST FUND DRIVE SINCE 1994

Adams tour aims to forge Wall Street ties

By Victoria Griffin in Boston and Richard Wolfe in Washington

Gerry Adams, the Sinn Féin president, arrived in New York yesterday for the Irish republican movement's biggest fundraising tour since the start of the peace process four years ago. Sinn Féin is the political wing of the Irish Republican Army.

Armed with legitimacy afforded by the April peace agreement, and displaying the demeanour of a conquering hero, Mr Adams appeared determined to forge fresh ties with Wall Street and US business.

This morning he will tour the New York Stock Exchange, and this evening he will host a \$1,000-a-head black-tie dinner at the World Trade Centre. It will be the first time Sinn Féin has ever tried to raise money in New York's financial district.

Money from the event will go to the campaign for Sinn Féin's candidates in the June elections for the new Northern Ireland assembly. Mr Adams also hopes to cement his new-found status in the American mainstream as a legitimate political leader. Friends of Sinn Féin, the party's US arm, said that Mr Adams will meet President Bill Clinton tomorrow.

although the White House refused to confirm the appointment, saying only that it was a possibility.

The trip comes against a background of increasing goodwill towards Northern Ireland in the US. On June 7, William Daley, the US Commerce Secretary, will lead a trip to Northern Ireland and the border counties of the Irish Republic to explore investment opportunities.

The US Commerce Department said response to the trip had been overwhelming. Already, General Electric, Motorola, Fruit of the Loom, Pfizer and Pitney-Bowes have signed up for the excursion, which the US is billing as an important step towards lasting peace. "Peace and economic stability go hand in hand," Mr Daley said.

US interest in pharmaceutical and biotechnology investments is expected to be particularly strong. The impact of a Congressional amendment that exempted US corporations based in Ireland from paying tax at the US rate may now be felt in full. US companies in Ireland have to pay taxes on just 10 per cent of profits, instead of the 33 per cent required in other countries. "Closer economic ties between the two countries is

Priests 'may help decommissioning'

Priests or lawyers could provide an acceptable conduit for the Irish Republican Army to "decommission" its weapons, Gen John de Chastelain said yesterday. John Murray Brown writes. The former Canadian armed forces chief (right, at the Europa Hotel, target of many terrorist bombings in Northern Ireland's main city of Belfast) was appointed to oversee the destruction of the region's paramilitary arsenals. The notion that decommissioning could be conducted without direct contact with paramilitary groups represents a new offer from his independent commission, which has made little progress.

"A priest or a lawyer is fine. It can be anyone designated by the paramilitaries as an intermediary, but we must have a point of contact," Gen de Chastelain said.

Picture: Crispin Rodwell



accord in the US. Supporters of Republican Sinn Féin - a small rival group which opposed the Irish peace agreement - met last weekend in New York to discuss new strategies.

They formed a national Irish Freedom Committee, which will channel money to the families of political prisoners not protected by the peace agreement.

"We plan to buy a van to shuttle the families back and forth from prison," said John McDonagh, one of the organisers. "We won't be funneling money to military activities."

Republican SF activists are handing out leaflets at Mr Adams' appearances, asking Americans not to give money to mainstream Sinn Féin.

The group also plans to organise its own fundraisers, using teleconferencing to access speakers, many of whom are currently denied visas to the US.

"The trouble is that Americans are only hearing one side of the story, since the leaders against the accord are not allowed into the country," said Joe Dylan, a Boston-based activist. But even opponents of the peace accord admit that the general mood in the US is optimistic.

\$100,000 in the few days Mr Adams is in the US.

The organisation has gathered \$2.5m since 1995, although donations slowed to a trickle after the IRA ended its first ceasefire in 1996 and Mr Adams was barred from entry to the US.

"The doors for Sinn Féin are opening wider as the quest for peace accelerates," said Ray O'Hanlon, editor of the New York-based Irish Echo newspaper.

In spite of the optimism, there are strong pockets of resistance to the new peace

Brussels backs resumption of region's beef exports

By Michael Smith in Brussels

Northern Ireland can start exporting beef from next Monday for the first time for more than two years, the European Commission decided yesterday.

The decision is the biggest breakthrough the UK has achieved in its battle to overturn the beef export ban imposed by the European Union in 1996 when scientists found a potential link between BSE or "mad cow

disease" and vCJD, a similar illness affecting human beings.

Although Northern Ireland exports will begin slowly, hopes are rising that the EU will later this year approve a scheme that would allow export sales of beef from the UK mainland.

The commission said yesterday that it expected to bring forward a draft proposal in the next few weeks to allow exports of beef from animals born after August

1996, which applies to most of the UK's beef herd.

Although it is unlikely that EU nations will back the UK-wide scheme immediately, commission officials believe approval in the autumn is possible. Northern Ireland has been cleared earlier because it has a computerised monitoring system which Brussels says provides sufficient safeguards.

Some 97 per cent of Northern Ireland beef herds have never had a case of the disease. The commission said yesterday that exports will be restricted to products derived from animals which were born, raised and remained in certified herds during their entire life.

In addition, the entire production chain from slaughtering, cutting and storing to final dispatch should take place in Northern Ireland in establishments reserved for the handling of eligible products. So far only two meat plants have been approved,

but others are expected to follow. The decision lays down a series of stipulations designed to ensure strict official controls, labelling and certification and the traceability of meat and meat products back to the herd of origin.

In the year before the ban, Northern Ireland produced 70,000 tonnes of beef. More than half of this was exported, earning the region £220m (£367.4m) from countries including France,

Netherlands, Italy, Spain and South Africa.

Winning back the markets may prove difficult. Other exporters have filled the gaps and the high value of the pound is an obstacle.

The commission said satisfactory progress had been made in the UK to eradicate BSE. At the peak of the epidemic, in 1992, 37,830 cases were confirmed but by last year this had fallen to 3,386. More than 3m cattle have been destroyed.

The 'big four' pension fund managers battle for balance

Recent events have focused attention on significant changes in the sector, Jane Martinson reports

After a bad year for the four largest pension fund managers in the UK, the past few weeks have focused attention on changes in the industry and their place in it.

The UK's big four - Mercury Asset Management, Schroders, PDM and Gartmore - have increased their market share significantly since 1990, largely by winning balanced fund mandates. This method, the most common way of managing pension fund assets in the UK, gives one fund manager discretion to invest across a range of asset classes.

Even the largest funds of several billion pounds typically employ only a few managers. This has led to increased concentration in an industry where the "IBM syndrome" means the biggest has appeared to be the best and safest bet.

But several events this year suggest that the industry is going through a period of fundamental change. The most recent was the decision by Unilever, the consumer group, to dismiss MAM, the UK's largest pension fund manager, from a £1bn (\$1.67bn) portfolio because of poor performance.

The group awarded a third of its total £4bn fund to Barclays Global Investors, an index-tracking specialist. It was the first time Unilever had awarded money to a pas-

sive manager since outsourcing its pension fund management 11 years ago.

Unilever's decision followed that of Zeneca, the pharmaceuticals group, to reorganise its £2bn fund. The group reduced the amount managed by MAM, PDM and Schroders in balanced mandates. It awarded some money to a passive manager but, significantly, also wants to appoint more specialist managers to run different asset classes.

Roger Urwin, head of investment at Watson Wyatt, which advises most of the UK's largest pension funds, believes the "Zeneca experiment" could be important for the industry. He has been influential in changing the mood of the sector after publicising the consultancy's support for a mix of index tracking, balanced and specialist management. Watson had been closely associated with support for balanced management.

Poor performance has highlighted the power of large managers. Ray Martin, head of pensions at Zeneca, said the reorganisation was partly prompted by a realisation that overall performance had been saved by his team's own decisions on asset allocation.

The two companies which have suffered the worst and longest performance problems - PDM and Gartmore - have been hit by a decision to hold a large proportion of assets in cash. As asset allocation is a key component of balanced management, this failure has called the system into question.

However, while performance has provided the

Returns highest for five years

UK pension funds made their highest average return for more than five years - 11 per cent - in the first quarter of this year, Jonathan Guthrie writes. This compared with a loss of just over 1 per cent in the last quarter of 1997, according to WM, the performance measurement company. WM warned yesterday that returns were unlikely to be as good in the remaining quarters of this year. They have so far been below 2 per cent in the current quarter.

most headline-grabbing reason for recent change, government action has been the most fundamental cause. The Pensions Act, only a year old, has made pension funds reassess the way their assets are managed.

The minimum funding requirement, a central feature of the Act, insists that funds exactly match their assets with their liabilities, or the money needed to pay future pensioners.

As the liabilities are based on the movement of key indices, the change has served to increase the attraction of index funds for trustees.

Nobody is suggesting that balanced management will not continue to play a large part. Supporters of the UK system point to the experience of the US, where a dependence on specialisation has started to reverse, partly because of lack of effectiveness and the burden of extra administration.

New warning on inflation

By Richard Adams and Christopher Brown-Humes

Inflation in the UK will continue to rise unless wage pressures and domestic consumption are kept under control, Mervyn King, chief economist at the Bank of England, the UK central bank, said yesterday.

Mr King told a business conference that the short-term outlook for inflation was "extraordinarily benign" thanks to a combination of the strong pound and lower commodity prices. But he warned that domestically generated inflation was

significantly higher than official figures suggested.

Mr King, who is about to become a deputy governor at the Bank, is a member of its monetary policy committee, which is required by the government to set interest rates to keep annual retail price inflation at 2.5 per cent, excluding mortgage costs.

"As the one-off effects of the rise in sterling wear off over the course of the next year or so - as indeed they will unless sterling appreciates further - inflation will start to rise above the target unless domestically generated inflation declines," he

said. There was "a risk" that domestic consumption remained strong, in spite of a weakening economy. Mr King is regarded as one of the more hawkish members of the MPC, regularly in a minority voting for tighter monetary policy. But Mr King said using labels like "hawks" or "doves" was seriously misleading. "Over a five-year period, since each member of the MPC is trying to hit the same inflation target, I predict that it will be impossible to distinguish between doves and hawks."

Currencies, Page 23

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MANAGEMENT & TECHNOLOGY

PROFILE HENRY SCHACHT, LUCENT TECHNOLOGIES

A corporate seer extolling the merits of globalisation

Tony Walker on the former chief executive who found there is life after running a big corporation

Henry Schacht's business card describes his new role at Lucent Technologies, the high-flying manufacturer of telecommunications equipment, as "senior adviser". Yet the title hardly does justice to his emergence as something of a corporate sage.

Mr Schacht recently stepped down as chief executive and chairman of Lucent, but at 63 he has no intention of heading for the country club. Rather, he plans to devote his efforts to new projects for Lucent, directorships with top American companies and to charitable causes.

He is also much in demand for his views on corporate responsibility, on the role of US companies abroad and on appropriate behaviour for chief executive officers who are reaching the end of their tenure. Having stepped down twice as chief executive - from Cummins Engine in 1994 and Lucent in 1997 - Mr Schacht can claim special experience.

"Too many people get cold feet as retirement day approaches and stay a bit too long," he says. "They neglect to devote sufficient effort to managing the process of extrication."

In the case of both Cummins and Lucent, Mr Schacht handed the reins to chief operating officers, or understudies, with whom he had worked closely. This preoccupation with orderly transition, a clearing of the decks, perhaps owes something to his early experience in the US Navy where he served as an adviser in Vietnam in the 1960s.

But he also believes that there is life after running a big corpo-

ration, including a company such as Lucent, which has grown strongly since it was spun-off in 1996 by AT&T. Lucent, which is currently riding the Internet wave, has seen its share price more than double in the past year.

If the company's spectacular performance tempted Mr Schacht to keep a grasp on the reins, he quickly put the idea aside, he explains, because by the end of the second year he had achieved his objectives: he had launched the company and put in place the strategy and personnel to enable it to expand its operations.

But as a director of Lucent and senior adviser for new projects, he remains closely in touch. On the day of our interview, conducted in Lucent's New York offices with their panoramic views towards New Jersey where the company's manufacturing facilities are located, Mr Schacht was monitoring the effect on the share price of the acquisition of a smaller telecommunications equipment manufacturer.

Too many people get cold feet as retirement day approaches and stay a bit too long'

He is also responsible for helping to form a venture capital company, following, one suspects, the General Electric model, to look specifically for opportunities in Russia and India. Lucent is already involved in China where it has some half dozen ventures under way.

Mr Schacht, who as chief executive for more than 20 years at Cummins pushed the manufac-



Schacht: master of the orderly transition

turer of diesel engines into several Chinese ventures, is a great believer in globalisation.

"You are not going to be able to live in a world where the standard of living in one part is so different from the standard of living in another part, especially now that people are so aware of what everybody is able to do," he says.

"The real issue is: can we use this great mass of talent that we've put together to lift the standard of those less well-off without destroying our own standard of living?"

Mr Schacht, in this respect, might be regarded as the antithesis in US corporate culture of Al Dunlap, the chairman of Sunbeam, the domestic appliances company, whose "slash and burn" management methods have brought him notoriety. Mr Schacht and Mr Dunlap often find themselves on opposing sides in discussion about corporate responsibility.

Mr Schacht, who in addition to his position at Lucent holds directorships of Chase Manhattan, Johnson & Johnson, Alcoa and Cummins, also has firm

views about the role of directors and their relations with the companies on whose boards they serve.

In his years as a chief executive he looked for directors who had the requisite experience and wisdom and also the "time and energy" to devote to the task. But experience also dictated that he find people who were relatively busy, rather than those with time on their hands.

"It's the age-old adage," he says. "Ask a busy person if you want to get something done."

In his "second retirement" Mr Schacht could not be said to be spending his time idly. In addition to his corporate responsibilities, he is chairman of the board of trustees of the Ford Foundation, a prominent member of The Business Council, a member of the Council on Foreign Relations and a trustee of the Metropolitan Museum, among other positions.

As to the possibility of him accepting another chief executive position, he says: "It is unlikely the opportunity will arise again, but I would never say never about anything."



TECHNOLOGY WORTH WATCHING

Research into stress may shed light on Gulf war syndrome

Research into the long-term effects of acute stress may shed light on Gulf war syndrome which has symptoms ranging from depression to joint pain.

Some believe the syndrome is stress related while others argue it is caused by exposure to toxic chemicals, including acetylcholinesterase (AChE) inhibitors used to protect Gulf war soldiers against nerve gas.

But both views may have more in common than is supposed, according to a report in *Nature*, the international science journal.

Researchers at the Hebrew University of Jerusalem have discovered that stress and AChE inhibitors affect the same biochemical pathway, leading to the same, potentially damaging, long-term neurological changes. This raises the possibility that the combined effect of AChE inhibitors and stress may be particularly damaging. The research also provides an insight into why attempts to use AChE inhibitors to treat Alzheimer's disease may have been disappointing.

Hebrew University of Jerusalem: Israel, tel 97226585108; fax 97226520258.

Environmentally friendly fungicides

Research by the Scottish Agricultural College may lead to an environmentally friendly alternative to fungicides.

The work centres on "film-forming polymers" which form a barrier on the surface of the leaf. They are used in agriculture and horticulture to reduce water loss from plants and improve the effectiveness of agrochemicals.

These polymers were thought to be biologically inactive. However, SAC scientists found that certain of the polymers were effective against fungal diseases. SAC: UK, tel 131 5354185; fax 131 5354334.

Myriad ways to chemical synthesis

High-throughput screening (HTS) has done wonders for the productivity of pharmaceutical

research. The latest HTS systems can test 100,000 chemical compounds a day for signs of biological activity against a chosen target such as an enzyme, writes Clive Coolson.

But their voracious appetite for drug candidates to test is exhausting "chemical libraries" and putting pressure on chemists to synthesise new compounds.

An average chemist, working manually, can create 30-100 compounds a year. So drug companies are investing in automated synthesis systems that can increase chemists' productivity more than 1,000-fold, by using robotics to mix, react, purify and analyse compounds.

The first model of the latest system, called Myriad, has been installed at the European research headquarters of SmithKline Beecham in Harlow, UK. Myriad was developed by The Technology Partnership, a research company near Cambridge, England, for seven pharmaceutical groups: SB and Chiroscience of the UK, Merck and Pfizer of the US, Novartis of Switzerland, BASF of Germany and Takeda of Japan.

Automated synthesis has concentrated on combinatorial chemistry, a technique in which a range of similar chemical building blocks are made to react in all possible combinations.

Combinatorial chemistry can produce libraries of new compounds but is restricted in the

which drug candidates are tested on patients, will be a more difficult challenge. The Technology Partnership, UK: 1703 262626

Wired up to beat food poisoning

A thin metal wire that changes shape at different temperatures is set to become a weapon in the fight against food poisoning.

Researchers at Sandia National Laboratories in Albuquerque have used the wire, made of nickel and titanium, in a new indicator for food packaging. The indicator changes colour when its temperature rises above 5°C, the point where bacteria multiplies.

When the temperature rises and the wire changes shape, its movement tears a piece of coloured paper to reveal a different colour below. Even if the temperature cools again, the warning colour remains visible.

The sensor warns retailers and consumers about food damaged in transit and frozen food that has been thawed and refrozen.

Sandia National Laboratories: US, tel 5058457078; e-mail nsinger@sandia.gov

Walking crane to help at coal mines

A team of Australian scientists are developing a computerised walking crane, or "dragline", that is expected to be the largest industrial robot in the world.

The 75m tall robot is designed to carry 150 tonnes of blasted rock from open-cut coal mines and deliver it to the spoil pile.

It is designed to automate the most repetitive parts of the operation and is expected to reduce the strain on the operator and the equipment. Researchers hope that the robot will increase the productivity of the dragline by about 4 per cent, which would save the typical Australian coal mine A\$3m (US\$1.9) a year.

The robot is being developed by the Co-operative Research Centre for Mining Technology and Equipment and CSIRO Manufacturing Science and Technology. CSIRO: Australia, tel 0732124501; jmr@brb.dmt.csiro.au

Vanessa Houlder

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CINEMA

A real heiress in fancy dress

Martin Hoyle finds Henry James is given the full monty treatment in a less than satisfying new interpretation

Things may not fall apart in this week's releases but they certainly do not quite gel: plenty of promise, lack of fulfilment. *Washington Square*, for instance, is taken from the Henry James novella, well-cast with both young lions and established stars, and meticulous in period evocation. But the result is a fancy-dress parade, literate, intelligent and uninvolved.

To period feeling, director Agnieszka Holland (*The Secret Garden*, *Total Eclipse*) adds literary authenticity. She ignores *The Heiress*, the postwar stage and film adaptation of the same story. The tale depicts town mouse Catherine, plain and socially graceless, despised by her father, who turns the tables on the fortune-hunter who lured her.

The Heiress had two cracking theatrical moments: when Catherine realises her intended eloper has abandoned her, and the final curtain when, an older (and richer) woman, she rejects the returned suitor with cold satisfaction. The new film ends with Catherine running a day school for picturesque moppets and sending away her old suitor with a flea in his ear.

The film begins with the camera glidingly whirling around a household in turmoil as Catherine's beautiful mother dies in childbirth. It ends with Catherine at the piano on *amore* and con moppets. In between, it sacrifices some pretty chilling stage dialogue in favour of James's original. *Heiress* fans remember her ageing father's reproach to the now hardened spinster, that she has become cruel. "I was

taught by masters," is her cold reply: every actress worth her salt brings a pride to the back of the audience's collective neck with that proud and bitter admission. Here we get the full Jamesian Monty in dialogue which carries far less impact.

Jennifer Jason Leigh's Catherine improves with self-knowledge, steeling both backbone and sense of purpose. Initially her tics, twitches and stumbles suggest the mentally retarded rather than the painfully insecure. She looks right, those demure corkscrew curls offsetting a firm Victorian jawline. Ben Chaplin's coarse-featured sensuality is *schm* pre-millennium, his fall from grace expressed by five o'clock shadow (rather than the book's ageing process), and he expresses intensity by howling.

Maggie Smith is the meddlesome aunt, a scrawny old fowl fluttering her single chick into the jaws of the fox. Albert Finney (the original was Richardson) as Catherine's contemptuous father dithers between brutality and rueful tenderness. He looks like Donald Wolfelt and sounds occasionally like W.C. Fields. Not a successful compromise.

Alan Rudolph, a product of the Robert Altman stable, can coax brilliant performances from actresses; which makes *Afterglow* all the more puzzling. Briefly, it has the makings of a Feydeau farce or, in the blackness which underlies the characters' cross-purposes, a dark Ayckbourn exploration of sexual non-communication.



"I was taught by masters": Jennifer Jason Leigh and Albert Finney in 'Washington Square'

Frigidly self-absorbed, young high-flier Jeffrey is married to broody child-crafter Marianne. Burly "Lucky" Mann is an odd-job Mr Fixit who satisfies his female clients with more than his spanner and plunger (the film indulges in the visual equivalent of many such *single entendres*). His unhappy ex-wife Phyllis pines for their vanished runaway daughter. Outraged spouses on the trail of their partners' latest infidelity are attracted to one another, neither realising the other's identity.

This gentle probing of pain, of fear of rejection and therefore commitment, goes off the rails with a final farcical brawl between the two husbands, Lara Flynn Boyle as yuppie wife is lost between kooky humour and a "Till take the I'm ovulating," is how she decides to buy a flimsy garment for delectable and lonely pathos. Julie Christie is Phyllis: ageless, beautiful, mellow, but acting in a world of her own. Carry out the acid test: shut your eyes as you listen, and the lines come over as per-

fumctory, off-hand, mechanical. That casual, 1980s laid-back persona will not be shaken off.

Nick Nolte's Lucky, a craggy, open sensualist, is

WASHINGTON SQUARE
Agnieszka Holland

AFTERGLOW
Alan Rudolph

DARK CITY
Alex Proyas

THE GENERAL
John Boorman

THE JAMES GANG
Mike Barker

spot-on. Jonny Lee Miller from *Trainspotting* is surely the next British superstar. In an accent not just North American but perfect Canadian, he expresses the pain of self-aware emotional aridity, eyes peering out of the icy carapace like an appeal for help. He could - doubtless will - play Iago and

walk away with the sympathy vote.

If Rudolph, for all his visual stylishness, wastes the Montreal setting with its bland of sleek Americanness and old-world Europe, writer-director Alex Proyas goes to town with his perpetual urban nocturne, a vast series of studio sets evoking a city of dreadful night, in *Dark City*. Comic strip fantasy is garished with references to *Metropolis* and *Noir* in this story of an alien race dwelling beneath the city that plays with people's memories and identities, even changing the landscape every 24 hours.

Best viewed as superior hokum, the movie is a rattling good yarn that casts its own disturbing spell as Rufus Sewell's amnesiac fugitive from a murder charge belts down those mean streets after the truth. William Hurt's sympathetic cop has a disturbing look of the young Norman Tebbit. Ian Richardson's chief alien even more disturbing look of the old Norman Tebbit. The effects are sumptu-

ous the whole thing has the enjoyableness of a nightmare from which you have gratefully awoken.

The General won John Boorman the Director's Prize at Cannes. In brilliant black and white, it recounts the career of Martin Cahill, a Dublin criminal whose politically wished plague on both their houses (or rather, a strict adherence to free market principles) led to his murder by the IRA in 1994. For all Boorman's story-telling brilliance, there is something oddly flat in a film whose hero is devoid of self-doubt or questioning, who never changes or develops.

After nailing a gang-member to a pool table for alleged disloyalty, he concedes that the victim may be straight after all. They all bond like mad after this. There is no real feeling that armed hold-ups used real weapons; that breaking into a woman witness's bedroom at dead of night to put the fear of death into her is actually a death threat. There is a moral blankness here that leaves one finally indifferent, to Brendan Gleason in the title-

role, even to Jon Voight, the imported star name, bringing a brooding presence and good Irish accent to an underwritten role.

The same ambivalence undermines *The James Gang*. This first feature from Mike Barker (ex-BBC TV) makes one look forward to the next, with a better script. Scots mum Bernadette (the excellent Helen McCrory) and her brood of infants take to crime like a junior-league Bonnie and Clyde plus a dash of Thelma and Louise.

Their intended loveliness is undermined by another grudgingly admiringly cop, the third this week, played by Toni Collette (*Muriel's Wedding*), looking and sounding out of place. The debt-collector's arson that drives the family from their flaming home is the sort that kills in real life.

And a film that wants us to take these walls and burns seriously should itself take their cheery induction into armed their more seriously. The tacked-on happy ending is grotesquely unworthy.

Without the fire

THEATRE

IAN SHUTTLEWORTH

Two plays by Federico Garcia Lorca
Battersea Arts Centre, London

Now that Battersea Arts Centre's future is financially assured, artistic director Tom Morris has programmed its three spaces thematically. While Studio One hosts seasons curated by the Red Room theatre, and Studio Two (most controversially) opts for "radio-theatre" in a Playing In The Dark strand, business continues as usual in the centre's main house. In this case, "as usual" means Absolute Theatre's competent but unexceptional productions of two plays by Lorca narrating the love of older men for younger, inconstant women.

The Shoemaker's Wonderful Wife (*La zapatera prodigiosa*), given what is apparently its British professional premiere, takes up the bulk of the evening (sadly and disconcertingly protracted on the press night by an interruption when a member of the audience fell seriously ill). With Jessica Worrall's *trompe-l'oeil* set and colour-coded characters, and Andrew Pratt directing the phalanx of outraged neighbours in a kind of clockwork flamenco, the visual and theatrical tone is suitably *Lorcaesque*: related to small-town Spanish life, but artificially heightened and a little mechanised.

Simon Wright and Sarah Jane Field wrangle and reconcile as the shoemaker and his teenage wife, as he flees her irksomeness and she subsequently discovers an unadmitted depth of fidelity to his memory. Songs and chants punctuate the action, giving greater vent to the ever-present poetry even of Lorca's dramatic writing; accompaniment is supplied by a brace of musicians on guitars, pipe and - most wondrously - a cymbal played with a bow to produce a noise like shards of a satellite falling to earth.

A prologue spoken from beneath "the author's hat" (we know this because it says so on the chapeau in question) is heard without any of the laughs perhaps intended; a puppet-play towards the end effectively dramatises the couple's estrangement for them to see.

This is followed by the play rendered here as *How Don Perlimpin Adored Belisa and in his garden tried to please her*, which also inhabits the familiar territory of domestic tension, betrayal and ultimate sacrifice. Wright and Field return as the second mismatched couple, and Pratt directs even more mechanistically: actors move, to the sound of the bowed cymbal, from tableau to tableau to deliver their lines, never admitting the slightest natural movement.

John Edmunds' translations occasionally fall limp - Belisa's response to Perlimpin's death is, "I had no idea he was such a complicated man". The productions are perfectly serviceable, but ultimately fail to glow with the green fire of the dramatist's poetical visions.

MUSIC GYRGY LIGETI/MARKUS STENZ FAREWELL

Birthday bash finds wild expression

The South Bank series "Clocks and Clouds", a devoted survey of György Ligeti's music, has brightened many an evening since it began two Decembers ago. Last week it wound up with two Philharmonia concerts under Esa-Pekka Salonen and a recital by the Arditti Quartet, just in time for Ligeti's 75th birthday today.

The Arditti were superb, as expected. In Ligeti's two quartets - though the earlier one (composed while he was still in Hungary, where none of his serious music got performances) has not worn well. Yes, it still sounds like Ligeti (and almost as much

like Bartók); but now it seems a sedulous compendium of all the early-1960s avant-garde hoops that a scrap of Bartokian material could be put through.

The radically ingenious Second Quartet (1968) is proper, mature Ligeti, expressive without recourse to any "expressive" routine. In his cracking piano concerto of 30 years later, Roland Pontinen was brightly fingered and tireless, Salonen sharp and precise: an ideal performance of this athletically witty piece.

The next night, Emmanuel Pahud and Heinz Holliger did as much for the wildly

original flute-and-oboe Double Concerto from 1972. From Ligeti's opera *Le Grand Macabre*, Sibylla Ehrlert repeated the Police Chief's mad coloratura-bass oration to starting and wonderful effect, and was cheered to the roof.

Ligeti probably got most of the rehearsal time - or else Salonen doesn't know Debussy very well yet; or possibly both. He was loud and efficient, with an almost parade-ground beat in *La Mer*. Sometimes even the main tunes were submerged beneath the raucous surface, and it is hard to do much with nuances if the orches-

tra rarely sinks below *mezzo-forte*. The previous night, some of his under-timpo *Iberia* had been a little softer, but it dropped with languid rubato (for all the noise he whipped up at the end) - and yet he left any number of semi-precious stones in the score unturned, underlit, unnoticed.

Same with Ravel's shimmering orchestra for his *Shéhérazade* songs: Monica Groop's lovely, liquid mezzo had to be paced carefully through all Salonen's droops. Can he possibly think that to be "period style"? In not one of those enchanting songs were we

allowed to appreciate the delicate, unyielding line that runs through each. Stravinsky, however, is meat and drink to Salonen, and he made a lusty meal of *Petrushka*.

The night before the Ligeti began, Markus Stenz conducted his official farewell concert with the London Sinfonietta. His four-year tenure as principal conductor has been consistently rewarding. But we shan't miss him gravely; despite his new post at the Melbourne Symphony, he is expected to return often.

The programme was his

personal choice. A lovely performance of Oliver Knussen's *Songs Without Voices* preceded three works with voices, by Mark-Anthony Turnage, Wolfgang Rihm and the Euro-Australian Brett Dean. Rihm is an abrasive known quantity, like him or leave him, and Rosemary Hardy sang his *Abschiedsstücke* with great art.

Dean's new *Carlo*, for strings, electronic sampler and a taped chorus, is a dramatic fantasy on the 16th-century composer Gesualdo's disarming life. (Between madrigals he murdered his wife and her lover,

but was Prince enough - of Venosa, a small place - to get away with it.) *Carlo* struck me as sober, honest music-spinning for essentially theatrical ends: musically it was nothing special.

Since Turnage's *Twice Through the Heart* had its Aldeburgh premiere two years ago, it is swiftly going everywhere. Three leading mezzos here have already taken on its dramatic solo role, a woman whose husband has driven her to murder. Stenz had a fourth, Sarah Connolly, fresh from her triumphant "hero" in Handel's *Xerxes* at the ENO. Tel: 33-1-49525050

Stenz is good at that, too.

David Murray

INTERNATIONAL

Arts Guide

AMSTERDAM

OPERA
Netherlands Opera, Het Muziektheater
Tel: 31-20-551 8911
Siegfried, by Wagner. New production conducted by Hartmut Haenchen in a staging by Pierre Audi; Jun 1

BALTIMORE

EXHIBITION
Walters Art Gallery
Tel: 1-410-547 9000
Monet: Paintings of Giverny from the Musée Marmottan. 22 paintings of the artist's garden, shown alongside photographs and works from the Walters' collection; to May 31

BARCELONA

EXHIBITION
Museu Picasso
Tel: 34-9-319 6310
Egon Schiele: The Leopold Collection. 162 paintings and drawings from the period 1905-1918, on loan from the world's largest private collection of

Schiele's work; to May 31

BERLIN

CONCERTS
Konzerthaus
Tel: 49-30-203030
Rundfunk-Sinfonieorchester Berlin: conducted by Alan Gilbert in works by Karman, Mozart and Copland, with clarinet soloist Sharon Kam; Jun 3

Philharmonie
Tel: 49-30-2548 8354
Berlin Philharmonic Orchestra: conducted by Bernard Haitink in works by Schubert and Shostakovich. With soloist Matthias Goerne; May 29, 30, 31

CHICAGO

CONCERTS
Orchestra Hall
Tel: 1-312-294-3000
www.chicagosymphony.org
Chicago Symphony Orchestra: conducted by Daniel Barenboim in a concert performance of Fidelio. With the Chicago Symphony Chorus; May 28, 31
Chicago Symphony Orchestra: conducted by Daniel Barenboim in Beethoven's Symphonies Nos. 6 and 7; May 29, 30

EXHIBITION

Museum of Contemporary Art
Tel: 1-312-280 2680
Cindy Sherman: retrospective tracing the New York-based artist's development from the 1970s to the present. Consisting of 156 works, this show presents selections from each of her major series, including Untitled Film Stills (1977-80),

Centrefolds (1981) and Fairy Tales (1985); to May 31, then touring

FLORENCE

OPERA
Maggio Musicale Fiorentino
Tel: 39-55-211158
www.maggiomusicalefiorentino.com
Le Comte Ory, by Rossini. New production conducted by Roberto Abbado in a staging by Lorenzo Mariani; ETT-Teatro della Pergola; May 28, 30
Wozzeck, by Berg. New production by William Friedkin, conducted by Zubin Mehta; Teatro Comunale; May 29; Jun 1, 3

GLASGOW

OPERA
Scottish Opera, Theatre Royal
Tel: 44-141-332 9000
The Queen of Spades, by Tchaikovsky. Conducted by Richard Armstrong in a staging by Yannis Korkkios; May 28; Jun 3

GLYNDEBOURNE

OPERA
Glyndebourne Festival Opera
Tel: 44-1273-815 000
Cool Fan Tuba, by Mozart. New production by Graham Vick, conducted by Andrew Davis. Cast includes Allen Ople and Barbara Fritoli. With the London Philharmonic Orchestra; May 30; Jun 1
Katy Kabanova, by Janáček. Revival of Nikolaus Lehnhoff's production, conducted by Yakov Kreizberg, with designs by Tobias Hahnel. Cast includes Amanda Roocroft. With the London

Philharmonic Orchestra; May 28, 31; Jun 3

HELSINKI

OPERA
Finnish National Opera
Tel: 358-9-6030 2211
Siegfried, by Wagner.
Conductor Lef Segerstam, director Götz Friedrich and designer Gottfried Pilz continue their collaboration on the Ring with this new production. The title role is sung by Stig Andersen; May 29; Jun 2
The Magic Flute, by Mozart. New production by Swedish director Etienne Glaser, designed by Peter Tillberg; May 28

LONDON

CONCERTS
Barbican Hall
Tel: 44-171-538 8891
London Symphony Orchestra: André Previn conducts a programme of works by Copland, Previn and Schumann; May 31
Royal Festival Hall
Tel: 44-171-960 4242
Vienna Philharmonic Orchestra: conducted by Riccardo Muti in works by Brahms and Stravinsky; May 28

EXHIBITION

National Gallery
Tel: 44-171-639 3321
Henry Moore and the National Gallery: this celebration of the centenary of Moore's birth consists in a selection of his favourites among the Gallery's holdings; to

May 31

MUNICH

CONCERTS
Philharmonie Gasteig
Tel: 49-89-5481 8181
London Classical Players: conducted by Roger Norrington in works by Haydn and Mozart. With violin soloist Thomas Zehetmair and viola soloist Ruth Klittus; May 28

NEW YORK

CONCERTS
Lincoln Center
Tel: 1-212-721 6500
www.lincolncenter.org
New York Philharmonic: world premiere of Del Tredici's The Spider and the Fly, for Vocalists and Orchestra, conducted by Kurt Masur. The programme is completed by works by Copland, Virslis, Weber and Ravel; May 28, 30

EXHIBITIONS

Guggenheim Museum
Tel: 1-212-423 3500
www.guggenheim.org
China - 5,000 Years: major exhibition of traditional Chinese art. Highlights include Neolithic jades, Shang and Zhou bronzes, tomb ceramics, and a collection of Buddhist stone sculptures; to Jun 3, then transferring to Bilbao

Metropolitan Museum of Art
Tel: 1-212-879 5500
www.metmuseum.org
Paul Strand, Circa 1916: comprising 50 rare prints tracing the photographer's transition from

a soft-focus style to a bold, American modernism; to May 31

PARIS

CONCERTS
Salle Pleyel
Tel: 33-1-4561 6589
Orchestre de Paris: conducted by Sylvain Cambreling in works by Boulez and Messiaen. With soprano Françoise Pollet; Jun 3

Théâtre des Champs Elysées
Tel: 33-1-49525050
Orchestre National de France: conducted by Yuri Temirkanov in works by Rimski-Korsakov, Rachmaninov and Elgar. With piano soloist Yefim Bronfman; May 28

EXHIBITION

Musée d'Orsay
Tel: 33-1-4049 4914
www.Musee-Orsay.fr
Exhibition examining the revolutionary movement of 1848, and the influence of the Republic upon artistic life between 1848 and 1952; to May 31

PRAGUE

CONCERTS
Dvorak Hall
Midori: recital by the violinist of works by Beethoven, Brahms, Szymanowski and Saint-Saëns. With pianist Robert McDonald; May 28

Smetana Hall

Kathleen Battle: recital by the soprano of works by Handel, Wolf,

Fauré, Rossini and Turina. Accompanied by pianist Roger Vignoles; May 28

TOKYO

CONCERTS
Suntory Hall
Tel: 81-3-3584 9999
Tokyo City Philharmonic: conducted by Tajihiro Ilmor in works by Schumann and Bruckner; May 28
Tokyo Metropolitan Symphony Orchestra: conducted by Naohira Tsubuka in works by Beethoven. With piano soloist Hiroko Nakamura; May 30

TV AND RADIO

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22.00: World Business Today Update

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14.20.

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FINANCIAL TIMES

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Thursday May 28 1998

Russia's rouble crisis

Having staved off two attacks on the rouble in the past eight months, Russia now faces an even greater challenge. The rouble yesterday came under its most serious pressure yet, prompting a rise in interest rates to 150 per cent. Whether Russia survives this crisis depends on whether Boris Yeltsin, the president, can accept his role in bringing it about – and credibly commit to real reform.

The root of the problem is Russia's public finances, which have been in an unhealthy state for some time. This has increasingly led investors to withdraw, putting pressure on the rouble and leaving the Russian authorities no choice but to raise interest rates. But they are caught in a vicious circle. Each interest rate rise increases their debt service payments and further worsens the public finances.

Recent events have brought the situation to a head. Mr Yeltsin's decision to sack his cabinet left foreign investors feeling nervous. The failure of the Russian government to pay public sector wages then led to a costly blockade of key railway lines by striking miners. And the collapse on Wednesday of the Rosneft privatisation was the last straw. Not only was it meant to be a showcase privatisation but the revenues it would have raised were crucial to the public finances.

The situation is now fragile. But a devaluation must be avoided if at all possible. The

exchange rate anchor has delivered some stability to the Russian economy and is the only credible monetary target. And the rouble is not overvalued. A forced devaluation would be extremely destabilising for the Russian economy – and could have serious knock-on effects for other vulnerable currencies, particularly in eastern Europe.

Russia's problems have sprung from a government too weak to impose the necessary reforms. Mr Yeltsin must now show strong leadership. First, he must avoid the temptation to use Sergei Kiriyenko, his new prime minister, as a scapegoat. Second, he must accept that the public finances are at the heart of this crisis – Asian contagion is no longer a factor.

The International Monetary Fund, now in Moscow, also has a critical role to play. It is due to release a tranche of Russia's IMF programme and is under pressure to grant an emergency rescue package. It could be reluctant to do so, as Russia's promises of tax reform have been too slow in coming and so far unmatched by action.

But, with the support of world leaders, the IMF could use this crisis as an opportunity to impose stricter conditions on Russia and to demand greater involvement in its attempts to reform its public finances. Mr Yeltsin must swallow this medicine if he hopes to escape the crisis without lasting damage.

Euro-banks

There are good reasons for European banking mergers and bad ones. Unfortunately, the battle between ABN Amro and Fortis for Belgium's Générale de Banque seems likely to unleash a flood of deals of both kinds. Good mergers are those driven by the desire to make assets work harder, or to escape from the trap of a small domestic market. Bad mergers are those where the principal motive is size – of assets or of market capitalisation – or a spurious desire to achieve pan-European status in a hurry.

In the Générale de Banque case, both bidders can be absolved of the worst of these faults, though neither is entirely free from criticism. Fortis represents one of the *bancastrucure* combinations whose long-term value to shareholders is still unproven. ABN Amro builds its case for the deal partly on revenue synergies that cannot be guaranteed.

Still, both have plausible strategic objectives in the deal. In particular, both of them acknowledge that the home market for a bank in Belgium or the Netherlands is now the Benelux region as a whole. That is a sensible step forward, akin to the consolidation at home and abroad practised by Switzerland's newly merged UBS.

What would be less desirable is a flood of mergers aimed at bulking up banks either in size or in

European spread without obtaining serious cost savings or an integrated regional business.

Hastily assembled combines, to dominate national markets or achieve a national parity with the newly merged American giants, are not the answer to European banking's problems. Similarly, bolting together banks in individual European countries to create a region-wide network – an approach which several banks are rumoured to be contemplating – is also likely to prove a mistake.

Technology apart, there are few economies of scale in commercial banking once a national network of branches is achieved. And though some of the value-added parts of banking – such as international corporate advisory work – do require a worldwide spread of resources, they bring diseconomies of scale along with them.

Europe's banks face substantial strategic challenges. The euro's likely impact on domestic business; the effect of telephone and internet transactions on the profitability of bricks-and-mortar branches; the emergence of a top tier in investment banking that most European banks cannot now hope to join. A clear strategy to address these issues is indeed likely to involve mergers; but mergers without the strategic answers merely compound the puzzle.

War in Kosovo

Kosovo has become the cockpit of another Balkan war. Sporadic clashes between the ethnic Albanian majority and its Serb overlords have developed into a full-scale struggle – exposing the failure of current international policy towards the issue.

Under US pressure, Serb leader Slobodan Milosevic agreed this month to talks between his representatives and moderate Albanian leaders. But the talking has done nothing to halt the fighting. There is an urgent need for a firmer and more consistent international response, starting with today's meeting of Nato foreign ministers in Luxembourg.

Most observers hold Mr Milosevic, who several years ago stripped Kosovo of its provincial autonomy within the republic of Serbia, to blame for the conflict. But one might conclude the opposite from the international community's actions. Even the US, which has taken the firmest rhetorical line against Mr Milosevic, has flip-flopped on sanctions. This month, the US and its European partners in the Contact Group first imposed an investment ban on Yugoslavia, then suspended it when the Kosovo talks started, and may now have to re-impose it.

By contrast, the Contact Group has insisted that the Kosovo Albanians should not strive for outright independence, which could destabilise neighbours like

Macedonia. While publicly supporting the Albanians' demand for third party mediation, the Contact Group has privately pressed them into direct talks with Belgrade. The implication of this is that Kosovo should stay within Serbia as well as within Yugoslavia. The result has been to undermine the moderate ethnic Albanian leader, Ibrahim Rugova, in favour of the more radical Kosovo Liberation Army.

Even the dispatch of a Nato force to Albania itself – as requested by the Tirana government – now looks double-edged to Kosovo Albanians. Such a force might deter Serb incursions into Albania, but it might also stop arms reaching the KLA. It is now dawning on Nato that this could put it into the same unenviable position as United Nations forces were in Bosnia: preventing the weaker side from defending itself while doing nothing to check the stronger side.

If Nato proceeds with such a policy, it could make matters worse than if it did nothing at all. In any case, the western allies may yet find themselves facing radical calls for full-scale intervention in Kosovo itself. Nato ministers would do well to begin honestly confronting the options today. Meanwhile, their governments should keep economic sanctions on Belgrade, and start to press for a ceasefire as well as talks.

China connection goes sour

Stephen Fidler and James Kyngge look at the wider implications of the scandal in the US over technology exports to Beijing



negotiate details of the trip.

Whatever comes from that, the scandal has re-opened the fierce debate in the US between supporters of "constructive engagement" with China (which the administration has strongly backed since 1994) and supporters of "containment".

For the constructive engagers, such as Nicholas Lardy, senior fellow at the Brookings Institution, the allegations represent "a tempest in a teapot". Mr Chung's claims have been made as he seeks a plea bargain over charges he funnelled illegal contributions to the Democrats' campaign and must therefore be treated sceptically. (The donations were in any case paid back). Moreover, says Mr Lardy, the idea that in 1996 the US changed policy towards Chinese launches of US satellites is plain wrong. "The US has been approving satellite launches for a decade: none has ever been turned down," he says.

The "containment" argue that China is simply too authoritarian and too unreliable for the US administration to engage with safely. They claim that policy may have already been jeopardised by US national security. And even short of that, says Thomas Duestenberg, senior fellow at the Hudson Institute in Washington, what China's government should not be taken at face value. This is true, he says, of trade, where despite an overall reduction of tariff levels by China, many other obstacles have been put in the way of US exports. "New rules are all too frequently created to offset the impact of liberalisation measures," he says.

All this argues, he says, not for an end to constructive engagement with China, but at least a more cautious approach to it. The administration is likely to want to side with the constructive engagers such as Mr Lardy

than with Mr Duestenberg and those like him in Congress.

For Mr Clinton, China has now become a key protagonist in most of Asia's security issues – and Asia's financial crisis and India's recent nuclear test have shown just how pivotal China is to US policy in Asia. China has been co-operating with the US in attempts to halt North Korea's nuclear programme, and its strong alliance with Pakistan makes it influential in the politics of the subcontinent. But its territorial ambitions make for friction, in particular its claims that Taiwan – which has military and unofficial political ties with the US – is part of its territory. It also has claims to territories in the South China Sea which are disputed by many of its south-east Asian neighbours and has longstanding territorial and strategic disputes with Japan, Washington's firmest Asian ally.

The Asian financial crisis has underlined China's growing importance in a different way. The Chinese refusal so far to devalue its currency in the face of devaluations elsewhere has been praised by the US as an important contribution to stability. A Chinese devaluation would risk another round of Asian currency turmoil that could do more damage to world growth – and to the US economy. In talks with US officials this week, Chinese officials have reiterated their determination not to devalue, but the decision may become tougher to sustain if a second phase of the Asia crisis looms – and if the yen weakens further.

For their part, China's leaders also have good reasons for wanting engagement with the US. Jiang Zemin, the president and part of a "new generation" of leaders to gain full prominence since the death of Deng Xiaoping last year, has regarded the

improvement of US-China ties as the cornerstone of his strategy.

China's economy may need more help from the US than seemed necessary a couple of years ago. Asia's travails have reduced the flow of foreign investment into China – and trade with US, in which China runs a \$50bn annual surplus, is even more important than it was to keep the Chinese economic engine going.

Hence, a successful Clinton summit would provide a critical endorsement for Mr Jiang's leadership at a time when the reforms he has pioneered have led to surging unemployment. Although leaders are not directly elected in China, public disillusionment has the potential to divide opinion among leaders and paralyse policymaking.

Friction over Mr Clinton's visit would deal a sharp blow to Mr Jiang's prestige. In the Chinese context he bent over backwards to show accommodation of US cultural attitudes and historical achievements during his summit there last year. His guitar playing, his hanging the gong to start trading of the New York Stock Exchange and his liberal use of English during that trip amounted to a compliment to US opinion. But a snub from the Clinton administration – as it navigates its own domestic political minefields – would risk making Mr Jiang look foolish.

Where, then, does that leave the summit? The answer is in limbo. Despite the efforts and interests of both governments, the summit has been limited what the summit can achieve and have probably done considerable damage to hopes of a new momentum to constructive engagement.

The US side was initially pushing for China to make progress toward signing the Missile Technology Control Regime (MTCR), a

key arms control treaty which seeks to limit the spread of missile technology. But diplomats said that India's nuclear tests this month have so jolted the region's strategic balance that Beijing may be reluctant to sign any arms control treaty at this time.

Progress on MTCR was being linked to US concessions on the vexed issue of Taiwan – specifically whether the US would sign a statement to reduce arms sales to the island which China regards as a renegade province. Such a statement may still be possible but its content may now be diluted.

That leaves one other big issue of substance: negotiations on China's accession to the World Trade Organisation. These have intensified, officials say. But a genuine breakthrough is complicated by Beijing's reluctance to make market opening concessions until its financial institutions and corporations have had a chance to digest a current phase of destabilising economic reform. And on the US side, the annual debate in Washington over whether to grant China most-favoured nation status as a trading partner has been complicated by the campaign finance allegations. Indeed, the administration is seeking for that debate in Congress – originally scheduled for when Mr Clinton was in China – to be put back.

That could leave the summit mainly symbolic. It was supposed to show images of Chelsea Clinton, watching a Chinese *Sesame Street*, or of the president visiting a village where elections had taken place, beaming a message of hope to the US. Instead, these may just be empty gestures, symbolic of the unresolved tension in the US between the difficulties of constructive engagement and the dangers of containment.

OBSERVER

Spinning out of control?

If Chancellor Helmut Kohl was looking for a government spokesman who would throw his weight around, he certainly seems to have succeeded with the man he appointed this week.

Christian Democrat MP and former journalist Otto Hauser, 45, whose trademarks are Boss suits and Armani glasses, is a spin doctor in a hurry. There's a big opinion poll gap to close and just four months – including a parliamentary recess – until the general election.

So he got on with making waves at his first government press conference yesterday, wasting no time on the notion that official spokesmen should be above party politics. "I am a politician. I have political opinions," he told the unusually well-attended midweek briefing, and promptly put the boot into the opposition Social Democrats as spokesmen from various Bonn ministries rolled their eyes towards the heavens.

This tough spin-doctoring might just get Hauser into a tangle with Peter Hintze, the CDU's general secretary who is supposed to be in charge of party propaganda. And what will Andreas Fitzkenötter, the chancellor's own spokesman, make of his new rival? Or for that matter Matthias Wissmann, the transport minister who is also meant to be beefing up the CDU's economic message?

Holy unacceptable

India's nuclear scientists might wish they'd kept their isotopes to themselves. True, the nuclear tests have made them popular heroes – and prize catches on New Delhi's glittering social circuit – but years of messing about in lonely laboratories with test tubes and van der Graaf generators isn't the best preparation for being mobbed wherever you go.

Apparently the pressure of admiring fans is so great that A.P.J. Abdul Kalam, the sprightly head of the Defence Research and Development Organisation, has given up his daily walks, and has been advised to keep away from cocktail parties altogether – maybe officials are worried about what kind of brews he might cook up.

As if that wasn't bad enough, the bleak Pokhran test site itself has become a star, and might even become a sacred shrine: members of the Vishwa Hindu Parishad, a religious group, want to build a temple there. Though the idea of sending a heap of Pokhran sand on a progress around India appears to have been dropped.

But the feelfood factor created by the tests is fast dissipating in New Delhi's 47 degree summer heat, where long power cuts are adding to the misery of water shortages. What's the point of exploding bombs under deserts,

some are asking, if the lights, fans and air-conditioning don't work?

Tight Lippen

Maurice Lippens, Belgian co-chairman of Belgo-Dutch financial services group Fortis, was scrupulously polite about ABN Amro – which unsportingly trumped his bid for Générale de Banque this week – at yesterday's annual meeting.

But he couldn't resist a little dig after dwelling at length on the record profits growth at MeesPierson, the Dutch investment bank Fortis acquired in 1996. This was, said Lippens, in contrast to MeesPierson's "stable results" under its previous owner. Which was, of course, ABN Amro.

Tongue tied

Watch out if you're tempted to call the European Union's proposed withholding tax directive un *directif* en *vue* de garantir un *minimum d'imposition effective des revenus sous forme d'intérêts à l'étranger de la Communauté* – as one Eurocrat did this week.

Christelle Maher is after you. The founder of the Plain English Campaign, which has shaken up officialdom in the UK, is in Brussels today to knock some sense into European Commission officials who never use one word when trois will do.

The redoubtable mother of four from Liverpool didn't learn to read or write till she was 14, but is now

hacking away at the jargon jungle. She has been invited to Brussels by Fight the Fog, a campaign launched by English language translators in Brussels to stop Eurocrats calling a sheep a grain-consuming unit.

There's been some encouragement from the British presidency, and it's hoped the Austrians will follow suit when they take over in June. The Frins, who take the chair in January, say they're all for it – their plain-speaking commissioner Erkki Liikanen spoke at a Fight the Fog session earlier this month.

The key, apparently, is to Kias – keep it short and simple.

Listing to port

So much for the hopes of Isoco, the international securities regulators club, which yesterday proudly unveiled new disclosure standards on cross-border listings.

The watchdogs want companies seeking such listings to disclose every director's salary, stock options and benefits. So it was unfortunate that Isoco chose to set out its stall in Paris – such standards don't apply to French companies, let alone outsiders.

Michel Prada, head of the Commission des Opérations de Bourse, the French member of Isoco, stressed that the guidelines allowed for cultural differences to be respected. But secretive Gallic bosses be warned. Prada said he "personally" – would not oppose more transparency in future.

Financial Times

100 years ago

The War Intensifies
Washington, 27th May. This morning there was a revival of the rumour that General Miles was about to start at once for Tampa, preparatory to the invasion of Cuba. As a matter of fact, a special car for General Miles and his staff has been at the railway station for some days in readiness to start at a moment's notice. The Commander-in-Chief has for many days been anxious to start, and has only been restrained by the fact that the conditions are not yet ripe for a movement on Cuba. It can be stated on the best authority that General Miles himself has not yet decided when to begin the invasion of Cuba.

50 years ago

U.S. Commodities Price Trend
New York, May 27. Since the Treasury, disregarding the earnest advice of the Federal Reserve authorities and the strong hopes of the banks, announced in effect that there would be no tightening of short-money rates this summer in connection with its turnover of about \$10,000 millions of June and July maturities, commodity markets have taken the inflationary hint with laudable calmness. In this they reacted conversely to Stock markets.

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COMPANIES & MARKETS

THE FINANCIAL TIMES LIMITED 1998

THURSDAY MAY 28 1998

Week 22

our assets
Business Class seats.

British Midland
The Airline for Europe

INSIDE

Hydro Aluminium to double yearly production by 2005

Hydro Aluminium, a subsidiary of Norsk Hydro, Norway's biggest quoted company, is soon to decide on the location of a \$1.1bn smelter. The smelter, to be built either in Trinidad or Qatar, will be its first outside Europe. Hydro intends to double its annual aluminium production to 1.35m tonnes between 1996 and 2005. Page 24

German investors flock to buy-outs
Germany overtook France as the most active private equity market in continental Europe last year, as investors flocked into leveraged buy-out deals and took equity stakes in a growing number of start-up or young businesses. Page 18

Rate rise hits South African stocks

An increase in official interest rates in South Africa, triggered by the fragile rand, has cut a swathe through the Johannesburg stock exchange. For most of this year, equities soared ahead as investors discounted a rising interest rate scenario. But that has changed with the Reserve Bank waging war on currency speculators. Analysts warn banks may have to raise lending rates to the public if currency market turmoil persists. Page 34

AssiDomán may have to sell land
AssiDomán, the Swedish paper and packaging group, could be forced to sell some forestry assets to the Swedish state under a government scheme to repurchase forestry land. Page 18

Matif to end open outcry trading
Matif, France's derivatives exchange, said it would transfer all trading to its electronic platform next Tuesday, only six weeks after it introduced screen-based trading. Officials at Matif, Europe's fourth largest exchange by volume, had expected the transition period to last much longer. Page 18

Troubled rouble boosts dollar
Crumbling confidence in the rouble helped the US dollar advance against European currencies as investors sought refuge in quality. Page 28

US credit card issuers face trouble
The US credit card industry has been profoundly affected by the wave of mergers and acquisitions. Commercial and investment banks have taken advantage of the situation to realign their industry. But credit card issuers face growing write-offs, fiercer competition and overcapacity. Page 17

Support for Texas Utilities
The \$11bn syndicated loan for the acquisition of The Energy Group, the UK electricity supplier, by Texas Utilities of the US has closed with strong support from a syndicate of 48 banks. Page 22

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Daimler-Chrysler jobs pledge

Shareholders welcome merger as chairman promises to protect workers and Mercedes-Benz car brand

By Graham Bowley in Stuttgart

Daimler-Benz shareholders yesterday welcomed the company's merger with Chrysler as Jürgen Schrempp, chairman, promised there would be no job cuts and vowed to protect the Mercedes-Benz car brand.

Separately, German unions agreed that US car workers would be represented on the supervisory board of the new Daimler-Chrysler company.

Daimler, Germany's biggest industrial group, told 14,000 shareholders at its annual meeting in Stuttgart that separate talks were progressing with several truck-makers in Asia, including Nissan Diesel, the truck division of Nissan of Japan, about possible co-operation and even acquisitions.

Mr Schrempp indicated Daimler would take a stake of more than 50 per cent if it decided on an acquisition in Asia.

He refused to give fresh details about the Daimler-Chrysler merger, saying more information would be available at an extraordinary shareholders meeting in the autumn when shareholders could vote on the merger. But he tried to reassure those present about

jobs, potential damage to the company's reputation and dropping the name of Karl Benz, one of the company's founders, from the title of the combined group.

"The name Karl Benz will be prominently represented in our proud Mercedes-Benz brand all over the world," he said. "Jobs in our new company will not be at risk."

Shareholders responded by standing to congratulate Mr Schrempp on the merger.

IG Metall, the big German engineering union, indicated that United Autoworkers, the US union, would take one of three union places on the Daimler-Chrysler supervisory board.

At present IG Metall has three direct representatives on the 20-strong supervisory board of Daimler-Benz. At issue was whether IG Metall gave up one of these places to the US car workers' union.

Daimler workers elect directly a further six members of the supervisory board. US workers in the combined group are not expected to be offered the chance to participate in filling these places.

Daimler revealed that strong growth in the US was the driving force in its 22 per cent

sales increase in the first four months of this year.

The company lifted its revenue forecast for the whole of 1998 to DM140bn (\$80bn) from DM134bn after sales reached DM43.8bn in the first four months.

In the US, revenues increased 38 per cent to DM10.3bn, and the company sold 69 per cent more cars. Daimler said operating profit this year would grow more strongly than revenues.

Mr Schrempp said board members were becoming keener on launching the Maybach, a luxury car which would compete with the Bentley and Rolls-Royce marques. A decision would be made in the next few weeks.

He added that 300,000 customers had already shown an interest in the company's new small Smart car, which is to be introduced in the autumn after delays.

Revenues at Daimler-Benz Aerospace, a partner in the Airbus Industrie airliner consortium, rose 18 per cent to DM4.6bn in the first four months. New orders rose 191 per cent to DM10.3bn. Sales of trucks grew 23 per cent to DM14.1bn. Car sales increased 28 per cent to DM19.9bn.



Double vision: Daimler chairman Jürgen Schrempp yesterday. Picture AP

El Niño wreaks havoc on fish meal industry

By Gary Mead

The 1997-98 season for the global fish meal and fish oil industries will go down as the worst on record because of the El Niño weather phenomenon.

Peru, the world's biggest fish meal producer, recorded an anchovy catch in April which was 91 per cent lower than a year ago.

"There have been major losses and redundancies. The industry is extremely depressed," said Dr Stuart Barlow, director general of the International Fishmeal and Oil Manufacturers Association (IFOMA).

The Chilean anchovy and jack mackerel catch has been hit almost as much as Peru's. Both have suffered as a result of the unusually high temperature of the upper levels of the eastern Pacific ocean.

"The fish are there, but they have gone much deeper than normal, seeking cooler waters which are far below the reach of ships' nets. There is nothing to suggest that stocks are lower or that spawning has been interrupted," said Dr Barlow.

Between 1991 and 1996 Peru's average annual fish meal production was 1.78m tonnes; this year, if the Peruvian government permits the resumption of fishing, which has been suspended for much of this year, total production might reach no more than 875,000 tonnes, according to IFOMA.

The association predicts that total world production of fish meal in 1998 will not exceed 4.5m tonnes, compared with 6.5m tonnes in 1996. Fish oil, another by-product of the specialised \$3.7m global fish meal industry, is also suffering - production is likely to be no more than 55 per cent of 1997's 1.3m tonnes.

Inevitably, prices have soared. One year ago, fish meal was quoted at \$550 a tonne in Hamburg; today the figure is \$680. Fish oil prices have risen from \$635 a tonne this time last year to \$740 a tonne.

The biggest burden of the higher prices is likely to be borne by China's fish and poultry farmers. In 1997 China imported nearly 1m tonnes of fish meal, accounting for one-third of the world's trade.

BRITISH AIRWAYS CHIEF DENIES DEPARTURE REPORTS AND POINTS TO BETTER PROSPECTS

Ayling still optimistic as sterling and strike cut BA profits by 9.4%

By Michael Gagliardi, Aerospace Correspondent

A strike by cabin crew and the strong pound cut British Airways' annual pre-tax profits by 9.4 per cent to \$580m last year.

However, lower fuel prices and a cost-cutting programme helped limit the loss to less than the market had expected.

Robert Ayling, chief executive, said the weakening of sterling and the continued drop in fuel prices put the company in a "strong position" in the current year. He hoped regulators on both sides of the Atlantic would approve BA's planned partnership with American Airlines, in spite of a critical report from the US department of justice last week. The report said the planned alliance would "significantly reduce competition". It

said the US department of transportation should only approve the alliance if competitors were granted 836 weekly take-off and landing slots at London's Heathrow airport.

The airline has rejected similar proposals from Brussels, but Mr Ayling said he hoped regulators would come up with an acceptable set of conditions. BA would only go ahead with the alliance if it made commercial sense, he added.

The airline also moved yesterday to scotch reports that Mr Ayling was on his way out, possibly to a job in UK prime minister Tony Blair's government. Sir Colin Marshall, BA chairman, said he expected Mr Ayling to be in the job a year from now.

Mr Ayling said: "I haven't been asked to join the government. I don't expect to be

asked and I don't seek to be asked." He did not have the "faintest idea" who was spreading rumours. "If you do this kind of job you get sniped at," he added.

The reports of his possible departure followed his handling of last summer's three-day strike by cabin crew, which cut operating profits by \$125m. Sterling's strength accounted for a further \$200m reduction in operating profits, which fell 7.7 per cent to \$504m. Turnover rose 3.4 per cent to \$5.6bn.

Mr Ayling said industrial relations had improved substantially since last year. The company held monthly meetings with trade union representatives. "We tell them as much about the company as we tell our managers," he said. The airline's efficiency pro-

gramme, which aimed to reduce annual costs by \$1bn by the turn of the century, and which sparked the cabin crew dispute, was already showing benefits. Although staff numbers rose 2.6 per cent to 61,000, total employee costs fell 1.6 per cent to \$2.2bn. This reflected BA's success in reducing salaries for new recruits.

The efficiency programme had so far achieved savings of \$250m. This would translate into \$700m of annual savings by 2000-2001. The company had plans for a further \$250m in savings.

In spite of the profits fall, BA increased the full-year dividend by 10.3 per cent to 18.8p. Fully diluted earnings per share were down 17.3 per cent to 42p.

Continued, Page 28

Nissan posts loss of \$102m as sales slip 14% in Japan

By Michiko Nakamura in Tokyo

Nissan suffered a \$90bn loss in the US after a disastrous marketing and car-leasing strategy combined with a lacklustre product range to leave it with a stockpile of unsold cars.

The results contrasted sharply with the record profits announced last week by Toyota and Honda which enjoyed buoyant demand overseas.

Net losses for the group totalled \$14bn (\$102m) compared with net profits of \$77.7bn previously, while sales were 1.4 per cent down at \$5,584.9bn.

Nissan said it aimed to break even this year in spite of continuing weak demand in its main Japanese market. The company forecasts lower sales of \$6,500bn but plans to improve profitability through a global restructuring programme that will slash staff and production and freeze investments outside Japan, except in the US.

Kanemitsu Arai, managing director in charge of finance and accounting, blamed the company's losses on the sharp downturn in the Japanese market, a write-down in the value of its vehicle stocks in the US and valuation losses on its securities holdings.

The net losses came in spite of \$100bn in cost cuts and a \$35bn windfall as a result of the yen's depreciation against the US dollar.

The number of vehicles sold worldwide was down 5 per cent at 2.67m. Domestic sales were 1.4 per cent down on a unit basis.

Nissan suffered a \$90bn loss in the US after a disastrous marketing and car-leasing strategy combined with a lacklustre product range to leave it with a stockpile of unsold cars.

The company went heavily into the leasing market, only to be hit by a slide in used-car prices.

In response, Nissan aims to slash debts by \$1,000bn from \$2,500bn as part of a major restructuring. The company is also reducing the number of vehicle platforms it uses and reviewing its distribution network. It has virtually banned corporate hospitality, especially in the procurement department. It will slash stocks by \$250bn and cut costs by \$400bn.

As part of the restructuring announced last week, the company has abandoned its target of achieving 25 per cent market share in Japan, and aims to focus on profitability instead. Nissan is aiming for a group profit-to-sales ratio of 5 per cent in the year to March 2001 and 6 per cent in 2003.

Isuzu Motor, the truck maker which is majority owned by General Motors, suffered a 37 per cent slide in group net profits to \$5bn. The fall in profits was blamed mainly on the economic downturn in south-east Asia, where demand for trucks has slumped.

Suzuki Motor, the smaller car and motorcycle manufacturer, also saw profits fall for the first time in four years.

European Integration, Page 19

This announcement appears as a matter of record only

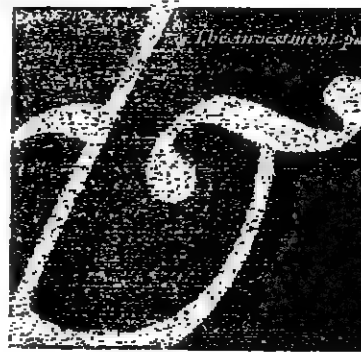
Which investment partner is chosen by enterprising IT people



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COMPANIES & FINANCE: EUROPE

NEWS DIGEST

GERMANY

Commerzbank buys 30% of Korea Exchange Bank

Germany's Commerzbank has agreed to pay \$250m for a 30 per cent stake in Korea Exchange Bank, South Korea's largest in terms of assets. Commerzbank is the first foreign bank to take a significant stake in a Korean commercial bank.

After the capital injection, the government will remain the largest single shareholder in KEB, which has been listed on the Seoul stock exchange since 1994. The German bank will be represented on KEB's supervisory and management boards.

Commerzbank said the deal, under discussion since last month, underlined its "conviction that Asia in general and South Korea in particular will show a positive development over the long term". Its stake is larger, and the price smaller, than was expected when talks were announced in April.

KEB was founded in 1967 as a state-owned foreign exchange and trade finance bank. It needed new capital to meet the Bank for International Settlements' capital equity ratio of 8 per cent by next month or face merger or closure under the terms of the International Monetary Fund's Korean rescue package.

Commerzbank already had a 27 per cent stake in Korean International Merchant Bank, in which KEB is the largest shareholder, and a representative office in Seoul. Contracts on the deal are due to be signed by the end of July. Clay Harris, Banking Correspondent

AUTOMOTIVE COMPONENTS

Visteon makes Polish buys

Visteon, Ford's automotive components manufacturing subsidiary, has bought Polmot Praszka and Zem, two low-cost Polish components producers, in the company's first acquisition since it was established as a separate operation last autumn.

Polmot Praszka, in central Poland, makes brakes, aluminium castings, suspension springs and oil and water pumps, while Zem, in the south west, produces glass systems. Both companies were bought from the state by Polmot, a private company specialising in the motor industry, three years ago. The value of the transaction was not disclosed.

John Kill, Visteon's manager for Europe, said yesterday his company was still evaluating the future role of the two Polish plants. However, the aim of the move was to develop Visteon's market presence in central and eastern Europe. Polmot Praszka already delivers components to Ford, Fiat and Daewoo. All have important manufacturing operations in Poland.

Visteon, which reported sales of \$17bn last year, owns the Alfa works in Szekesfehervar in Hungary and Autopal in Nowy Jicin in the Czech Republic. Christopher Bobinski, Warsaw

NETHERLANDS

NCM doubles despite Asia

NCM, the Dutch export credit insurer in which Swiss Re is taking a majority stake, more than doubled net profits last year from F114.2m to F130.2m (\$15m). While the previous year was affected by reorganisation costs, the latest result came in spite of a F134m provision against risks in Asia.

Maarten Hulshoff, chairman, said risk assessment and control was becoming increasingly difficult as economies interlinked. The millennium problem and the arrival of the euro, as well as technological developments in industries such as food, added to the uncertainties.

NCM, which controls the UK's former Export Credit Guarantee Department, last year acquired EKR, its Danish counterpart. Gordon Crabb, Amsterdam

OERLIKON-BUEHRLE

Bally IPO planned

Oerlikon-Buehrle plans to make an initial public offering for its Bally unit this year, in spite of last year's rejection by the majority shareholder of attempts at a flotation by Ernst Thomke, former Bally chief executive.

Mr Thomke last year resigned as chief executive after his plans for a partial flotation of the luxury shoe company were rejected by the majority shareholder, Hortense Ande-Buehrle, the daughter of Oerlikon-Buehrle's founder.

At Buehrle's annual shareholders' meeting, the Swiss-based company also said it planned to focus largely on its technology activities - represented by its Balzers and Leybold divisions. Furthermore, the company said it planned to eventually float its property activities.

In spite of the flotation of Bally, IHAG Holding, which represents the Buehrle family, would keep its investment in Oerlikon-Buehrle, it said.

Oerlikon-Buehrle said IHAG Holding had 37 per cent of its voting rights. Other institutions which vote in an IHAG pool hold 14 per cent, for a total voting majority of 51 per cent. AFP, Zurich

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TAKEOVERS BANKING AND INSURANCE GROUP ASKS DIRECTORS FOR BACKING AND HINTS IT MIGHT TOP ABN AMRO COUNTER-OFFER

Fortis urges Générale to support its bid

By Neil Buckley in Brussels

Fortis yesterday called on directors of Générale de Banque, Belgium's biggest bank, to recommend its takeover bid to shareholders - and hinted it might still top Tuesday's counter-bid by ABN Amro of the Netherlands.

The Belgio-Dutch banking and insurance group made clear it was pressing ahead with takeover plans for Générale in spite of the surprise higher bid from ABN Amro, and strongly defended its offer during its annual shareholders' meeting.

Maurice Lippens, Fortis's Belgian chairman, also opened the door to the possibility of increasing last week's 7-for-3 share offer.

He suggested after the meeting that there were occasions when Fortis could relax its rule that all acquisitions should immediately enhance earnings.

"We have always said we would not make an acquisition that would dilute earnings per share. But on occasions when the opportunity is too good to be true, we could consider changing that," Mr Lippens said.

His message that Fortis was not withdrawing set the stage for Belgium's first takeover battle since Carlo De Benedetti's failed 1998 bid for Société Générale de Belgique - Générale

de Banque's parent.

Mr Lippens's call to Générale's board to support the Fortis offer came hours before the board met to consider both competing bids.

Jan Kalf, ABN Amro chairman, presented his plans to the board after meeting Jean-Luc Dehaene, Belgian prime minister, and Philippe Maystadt, finance minister.

Directors issued no opinion last night, but plan to make a statement after another meeting on Friday.

Mr Lippens told Fortis shareholders that while ABN Amro's bid was 15 per cent higher than that of Fortis, based on Monday's closing share price, price movements on Tuesday had

narrowed the gap to 7 per cent. If ABN Amro shares continued falling while Fortis shares rose, Fortis's offer could end up worth more.

ABN Amro is offering 19 ordinary shares plus BF9,000 (\$246) per Générale share.

He added that Fortis's plan would make Générale the "motor" of the group's banking activities.

"Générale de Banque would be the mother bank of Fortis's banking group," Mr Lippens said.

or a sub-division of [another] bank."

Asked if Générale shareholders would simply choose the highest bid, Mr Lippens suggested the directors had to decide which offer was best for the bank's future, and advise their shareholders.

Mr Lippens received backing from Société Générale de Belgique, which has agreed to cede its 29.2 per cent stake in the bank to Fortis.

Viscount Etienne Davignon, SGB chairman, said that while it would be "irresponsible" to prejudge the view of others, he still supported a Fortis-Générale merger.

"We find the Fortis offer is better as far as the idea we have for the development of the bank," Mr Davignon said. "In the ABN Amro case, the bank would become a subsidiary of ABN Amro. In the Fortis hypothesis, we would have a bank which would not be a subsidiary of anyone. That is a fundamental difference."

Fortis yesterday "sharpened" its 1998 results forecast, saying it now expected an increase of at least 10 per cent in net profits. That followed a strong first-quarter performance, with net profits up 21 per cent to Ecu248m (\$273m).

See Observer, Page 13

French bank claims end to forced disposal

By Andrew Jack in Paris

Crédit Lyonnais, the French state-owned bank, is unlikely to sell any of its domestic subsidiaries or operations in order to meet the terms of its new rescue plan, a senior executive indicated yesterday.

Disposals of assets worth FF95bn (\$14.5bn) in France - which were imposed in a decision by the European competition authorities last week - will probably largely take the form of a reduction in the bank's lending portfolio.

Jean-Yves Durance, head of the domestic banking network, said.

His comments came after the European Commission approved a plan for Crédit Lyonnais that may ultimately cost the French taxpayer up to FF147bn, and which imposes new commercial penalties on the bank as well as an obligation that it be privatised by October next year at the latest.

Mr Durance confirmed that as a result of the plan, the bank will be required to cut the number of its agencies from 2,040 to 1,800 by 2000.

However, he said that some could be reclassified or combined with existing back-office or corporate offices.

Other agencies - in towns with more than a single outlet of the bank - would be closed, continuing a process Crédit Lyonnais and its rivals have been

undertaking over a number of years.

He said the bank had lost less than 30 per cent of the clients in the 200 agencies it had closed over the past three years.

Mr Durance ruled out the purchase by other banks of the Crédit Lyonnais branches targeted for closure, adding that he periodically received phone calls from his competitors expressing interest in bidding for some parts of the network.

He said that a cap on lending growth imposed by Brussels would not provide a constraint for individual clients, and that the bank would seek to use securitisation or partnerships with other financial institutions to ensure that it respected the platform for lending to its corporate clients.

In spite of regular complaints by France's commercial banks about the competitive distortions of the mutualist sector, Mr Durance said the retail banking business was currently generating a return on equity of 15 per cent, and he had an objective of 25 per cent in the coming two years.

He estimated that the negative publicity surrounding the bank over the past five years had cost it less than 5 per cent of its clients, and that since the middle of last year, its domestic market share had begun to increase.



Lukoil, Oneximbank to develop joint strategy

By Chrystie Friesland in Moscow

Lukoil, the Russian oil company, and Oneximbank, one of the leading financial groups, yesterday agreed an alliance that signals the emergence of a new financial-industrial behemoth.

Although the agreement falls short of a merger or share swap, the two groups said they would co-operate in financial services and oil and develop a joint strategy for defending their political interests.

Vagit Alekperov, head of Lukoil, said last week he would like to purchase Sidanco, an oil company in which Oneximbank owns a

controlling stake. However, yesterday he backed off, saying he would focus on co-operating with Oneximbank for now.

The alliance could raise questions for the foreign allies of the two Russian groups. Oneximbank last year formed a strategic partnership with British Petroleum, which owns 10 per cent of Sidanco. Lukoil has teamed with Atlantic Richfield, the US oil company.

However, Vladimir Potanin, (above) head of Oneximbank, said the Lukoil alliance would not jeopardise the BP relationship.

"We view Sidanco as a factor of strategic partnership with British Petroleum, and we are conducting all our negotiations in consultation with our partner," he said.

The two partners said they would bid separately for Rosneft, the largest Russian oil company yet to be privatised. Oneximbank said it would consider bidding for Rosneft with BP. Lukoil said any bid would be as part of a consortium with Gazprom, the Russian gas giant, and Royal Dutch/Shell.

The government's high-profile sale of Rosneft ended with embarrassment on Tuesday, when no bidders offered to buy the company at the \$2.1bn starting price for a 75 per cent stake.

Matif to end open outcry trading

By Edward Lucas

Matif, France's derivatives exchange, said yesterday it would transfer all trading exclusively to its electronic platform next Tuesday, just six weeks after it introduced screen-based trading.

The speed of the move, which came after strong pressure from market participants, took some by surprise.

Officials at Matif, Europe's fourth largest exchange by volume, said they had expected the transition period to last much longer; the exchange expected the "hybrid trading" system of open outcry and screens to last for at least 12 months.

The transition took less than 30 trading days, with the proportion of contracts traded on "open outcry" down to about 1 per cent this week.

The move is likely to have strong implications for the London International Financial Futures and Options Exchange, which plans to move to a hybrid system within 12 months.

Liffe, Europe's largest exchange, believes that "open outcry" is still a superior form of trading for certain types of contract, especially futures and options on short-term interest rates.

However, the volume of trading in the Matif futures on Fibor, its three-month interest rate contract, moved as quickly to the screens as the other futures and options contracts. This suggests the market has opted decisively for electronic trading on all types of contract.

Matif, which has a strategic alliance with Euronext, the product of a merger between the Deutsche Terminborse and Sofix, the German and Swiss derivatives exchanges, says its electronic system can cope with the complexities of trading on shorter-term contracts.

The system - known as NSC-VF - was pioneered by SBF, the French stock exchange that owns Matif. It is considered an improvement on older electronic systems, because it enables users to interface with other electronic systems.

Life is also developing an "open architecture" electronic system known as Liffe Connect.

Iberdrola to invest over \$2.5bn abroad

By David Whitham, Bilbao

Iberdrola, Spain's second largest power group, plans foreign investments worth more than \$2.5bn over the next four years to build on its recent moves into Latin America.

Javier Herrero, chief executive, said the group aimed to convert itself into "a global operator of energy services".

Iberdrola has already invested over Pta150bn (\$997m) in Latin America. This includes Pta130bn last

year, mainly in Brazil, where it has become the industrial partner in two regional power companies - Coelba in Bahia state, and Coem in Rio Grande do Norte.

In alliance with Spain's Repsol and Gas Natural groups, it also took stakes in two gas companies supplying Rio de Janeiro, as well as in two gas companies in Colombia.

It previously established footholds in Argentina, Bolivia and Chile. Mr Herrero said the international investment drive

would involve about Pta100bn a year until 2001, with half the total coming from the Spanish parent group.

Its diversification arm, with interests taking in telecommunications and aerospace, would from finance its own investment programmes, he said.

He was outlining Iberdrola's plans ahead of its shareholders' meeting on Saturday, at which it is proposing to raise its annual dividend from Pta70.36 to Pta74 per share.

The group increased net profits by 5 per cent last year to Pta101.5bn in spite of a 3 per cent cut in Spanish electricity prices, part of an agreed transition plan for deregulating the sector.

Operating profits were almost 38 per cent down, partly because of a sharp increase in the compensation it had to pay to other electricity companies for its relatively low production costs.

This compensation system has been stopped under the deregulation plan.

First-quarter net profits were more than 7 per cent up at Pta34.5bn. Mr Herrero said that Iberdrola, relying more on hydroelectric and nuclear power than other Spanish generators, would now be able to take full advantage of low fuel costs and operating margins 27 per cent above the average for the sector.

Iberdrola, formed by a merger in 1981, had a 30 per cent share of Spanish power generation last year, and 39 per cent of electricity billings.

Royal PTT Nederland NV with its registered office in Groningen, The Netherlands



Second 1997 Interim Dividend

With reference to the advertisement dated April 8, 1998 regarding payment of the second 1997 interim dividend, the Board of Management of Royal PTT Nederland NV (KPN) hereby announces that the number of dividend rights existing shareholders to one new ordinary share of NLG 10 per value has been set at 59.

Based on the closing price of NLG 112.90 on May 20, 1998, 1/59 represents a value of NLG 1.91. This is 4.32% less than NLG 2, the value of the second interim dividend in cash.

Payment of the dividend in cash and delivery of shares in connection with stock dividend conversion will start May 25, 1998.

The Board of Management
Groningen, May 20, 1998
Stationsplein 7

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Floating Rate Senior Notes of 1997/2002

• WKN 194 275 •

We are pleased to inform you that the interest rate of the above mentioned issue for the interest period from May 20th, 1998 (including) to August 20th, 1998 (excluding) (92 days) has been fixed on May 18th, 1998 by Morgan Stanley Bank AG, Frankfurt am Main, as interest determination bank at 3,68750% per annum. Therefore, the interest accrued for this period and payable on August 20th, 1998 will amount to DEM 9.42 per DEM 1,000 note.

Frankfurt am Main, May 18th, 1998
Morgan Stanley Bank AG

Notice of Redemption of the Notes

TMC Mortgage Securities No. 5 PLC

(A company incorporated with limited liability in England and Wales)

Mortgage Backed Floating Rate Notes due 2015

(the "Notes")

NOTICE is hereby given that, in accordance with Condition 5(c) of the Terms and Conditions of the Notes, TMC Mortgage Securities No. 5 PLC will redeem all outstanding Notes on June 30, 1998. The Notes will be redeemed at their Principal Amount Outstanding together with interest accrued to June 30, 1998.

By Order of the Board of Directors
May 26, 1998

Notice of Redemption of the Notes

TMC Mortgage Securities No. 1 PLC

(A company incorporated with limited liability in England and Wales)

Mortgage Backed Floating Rate Notes due 2014

(the "Notes")

NOTICE is hereby given that, in accordance with Condition 5(c) of the Terms and Conditions of the Notes, TMC Mortgage Securities No. 1 PLC will redeem all outstanding Notes on June 30, 1998. The Notes will be redeemed at their Principal Amount Outstanding together with interest accrued to June 30, 1998.

By Order of the Board of Directors
May 26, 1998

ETBA Finance

ECONOMIC & FINANCIAL SERVICES S.A. (formerly GREEK EXPORTS S.A.)

INVITATION FOR EXPRESSIONS OF INTEREST IN PURCHASING THE ASSETS OF "ELITE VILLAGE - TOURIST, COMMERCIAL, MARITIME, CONSTRUCTION AND HOTEL S.A."

"ELITE VILLAGE - TOURIST, COMMERCIAL, MARITIME, CONSTRUCTION AND HOTEL S.A." is a special liquidator of "ELITE VILLAGE - TOURIST, COMMERCIAL, MARITIME, CONSTRUCTION AND HOTEL S.A." which has been placed under special liquidation by Decision No. 1751/97 of the National Court of Appeal and within the framework of article 48a of Law 1482/1990, as supplemented by article 14 of Law 2201/1991 and its amendments.

Interested parties to express their interest in purchasing the assets of "ELITE VILLAGE - TOURIST, COMMERCIAL, MARITIME, CONSTRUCTION AND HOTEL S.A." by submitting within twenty (20) days from today, a written, non-binding expression of interest.

Summary data on the company under liquidation

"ELITE VILLAGE - TOURIST, COMMERCIAL, MARITIME, CONSTRUCTION AND HOTEL S.A." owns and runs the A Class ELITE VILLAGE hotel complex in the Verna district of Kalamata, situated on a plot of land 23,500 m² in area with a capacity of about 172 beds.

The hotel unit consists of a central building arranged for use as a conference centre and 13 bungalows. There are also two swimming pools, a children's playground, an open-air bar and roof-garden, an independent entertainment centre etc. A detailed description of the above is contained in the Offering Memorandum which is available to interested parties.

A detailed description of the above is contained in the Offering Memorandum which is available to interested parties.

Date on the auction for the highest bidder

1. An Offering Memorandum has been drafted by the liquidator with a detailed description of the total assets for sale and any other supplementary information that may be useful to the prospective buyers.

2. Prospective buyers, on signing a confidentiality agreement, may receive the Offering Memorandum from the offices of the liquidating company. They will also have access to any other information they may require and be able to visit the premises of the company under liquidation.

3. The procedure for conducting the auction for the highest bidder will be published within the legal time limits and in the same newspapers in which the present invitation has appeared.

For further information, interested parties may apply to

ETBA FINANCE S.A.,

1 Epanastasiou S. Vass. Constantinoi Street, Athens 115 25, Greece, tel. (001) 720214, 720274 and fax (001) 720664.

Delays to no Boeing 737

Thyssen. CS in Brazil move

Spain, inland reach final agreement on \$1.4bn deal

Information Services

Information to buy May & Spesh

ETBA ENTERPRISE FINANCE

ETBA approves \$6.6bn merger

COMPANIES & FINANCE: THE AMERICAS

Delays to new Boeing 737

By Christopher Parkes
in Los Angeles

Airlines waiting for deliveries of Boeing's new version of the 737 commercial jet face delays at least for the rest of the year, the company said yesterday.

A recovery plan following severe production disruption is slightly ahead of schedule, but efforts to ramp up output of Boeing's most popular aircraft still represent the greatest risk to its success, according to Ron Woodard, head of the commercial jet division.

The group said it would know if it had the situation under control by next month, when it aims to move to the next stage of recovery and step up production further.

Unused capacity in former McDonnell Douglas factories in California had been pressed into service to help ease the pressure on plants around the group's headquarters in Seattle.

Two 737s were in the final stages of production at the Long Beach works, and a decision would be taken in the summer whether to shift some final assembly

work south. Mr Woodard said.

The company, which is doubling 737 production to 14 a month, had delivered 189 commercial jets of all types so far this year, and expected this to increase to 250 by the end of June and 550 for the full year.

By then, it aims to have raised 737 output to 21 a month, with monthly production of the 747 expected to increase from four to five.

But Mr Woodard hinted that plans for the jumbo might yet be affected by the Asian economic crisis. No review was expected until mid-1999, but the company had detected some "downward" tendencies in demand.

Recovery from a production crunch last autumn, when labour and parts shortages created near-chaos in Boeing factories, has been dogged this year by demands from European and US aviation regulators for changes to the 737.

As a result of demands for the addition of extra emergency exits and the redesign of some components, the delivery of more than 80 737s was delayed by the need for retrofitting.

US credit card issuers braced for trouble as write-offs grow

Rising losses, harder competition and overcapacity have affected the direct marketing companies most of all, writes John Authers

No sector of US financial services has been more profoundly affected by last year's wave of mergers and acquisitions than the credit card industry. Since the beginning of 1997, four of the 10 largest credit card issuers have changed hands.

Once pending deals are completed, the biggest 10 issuers will account for 72 per cent of outstanding US credit card debt (for \$309.4bn), up from 64 per cent a year ago, while the biggest three have 38 per cent, up from 30 per cent, according to the RAM Research Group.

But the forces driving consolidation for credit cards vary starkly from those driving the rest of the industry. While commercial and investment banks have taken advantage of almost perfect conditions to realign their industry, credit cards have stumbled into trouble.

Credit losses have increased, against the trend for all other categories of loan, spurred by the record rates of personal bankruptcy in the US.

According to Salomon Smith Barney's composite of 35 issuing companies, 4.36 per cent of credit card loans

were written off in the first quarter of 1998, but this rose to 5.96 per cent by the third quarter of last year. After a dip, the charge-off rate rose to 5.84 per cent in the first three months of this year.

Meanwhile, the industry has suffered from the effects of too much competition. Supply of credit cards now plainly exceeds demand. Issuers have been forced to make more generous offers, lowering interest rates and adding extra incentives such as air miles. This has eaten into their profit margins.

Worst affected have been the "mono-line" issuers, which rose to dominate the industry using direct marketing and sophisticated statistical models to target specific customers.

With no overheads from large branch networks, and cheap finance open to them by securitising their loans on the capital markets, these companies were able to undercut traditional banks.

At the start of last year, specialists accounted for six of the 10 largest issuers. MBNA America, First USA, Household, AT&T Universal, Advanta and Capital One were all issuers without conventional branch networks.

US credit card outstanding debts

The emerging top ten

	\$bn	% of market
Chicorp (including Travelers, AT&T Universal)	64.9	15
Bank One (and First Chicago NBD)	56.6	13
MBNA America	44.3	10
Discover	35.0	8
Chase Manhattan (incl BNY)	32.5	8
Marathonbank (incl Capital America)	18.8	4
BankAmerica (incl BankAmerica)	17.5	4
First National (incl Advanta)	12.8	3
Capital One	12.5	3
American Express (Options only)	10.5	2
Top 3	188.0	58
Top 10	306.4	78
Industry Totals	421.8	

Source: RAM Research Group

But many of the credit card accounts controlled by the companies have now returned to conventional banks. Since January last year, First USA has been sold to Banc One, the Columbus-based regional bank which was keen to shore up its own weak credit card business, for \$7.3bn.

AT&T sold its credit card business to Citicorp for about \$4bn, while Advanta's loss-making credit card portfolio was sold to Fleet Financial, the largest New England bank, for a premium of about \$500m.

Other reshuffles in the industry saw Banc One and First Chicago NBD, both conventional banks with a heavy commitment to credit cards, merge to become the second largest issuer, while Bank of New York quit the business by selling its card portfolio to Chase Manhattan. Household, one of the largest mono-line issuers, bought Beneficial, a consumer finance company with interests in credit card and home equity loans, for \$3.5bn.

Economies of scale are important in credit card operations sold nationally by

direct marketing rather than using local branch networks. But consolidation will also allow issuers to reduce the industry's capacity.

Overcapacity is evident from the falling response rate to the industry's blanket mailings of credit card solicitations. According to Salomon Smith Barney, customers' response rate to these mailings has fallen from a high of 2.8 per cent in 1992 to 1.3 per cent last year.

A further problem is the reduction in long-term demand for credit card debt. Gary Gordon, analyst at Paine Webber, said credit card debt would no longer rise faster than the level of overall consumer debt, suggesting this had happened in the past "because credit card issuers steadily widened the pool of consumers they were willing to lend to".

He added: "That growth opportunity has largely ended in the US because nearly everyone today gets solicited, including children, pets, portfolio managers and the recently bankrupt."

He suggested the credit card might be losing its status as the most popular form of short-term debt, in the

face of strong direct marketing from home equity lenders offering borrowers the chance to consolidate their debts at lower rates of interest. These also benefit from low overheads, with marketing done via toll-free numbers, and television advertising normally fronted by former sports stars.

Oliver Wyman, the New York-based specialist banking consultancy, pointed out that the mono-line issuers had suffered the greatest increases in bad debts. This might be because "the industry centre of gravity has shifted".

According to the consultancy, higher-income households have reduced their consumer debt, while families earning less than \$25,000 a year have increased theirs.

This shift has lowered average credit quality and, combined with other factors such as the liberalisation of the US bankruptcy code, sent the mono-line companies' models awry.

But the consultancy makes clear the problem with the models is not a "fatal flaw", and the difficulties of the mono-line issuers are only a sign of the evolution of credit card business.

Thyssen, CSN in Brazil move

By Jonathan Wheatley
in São Paulo

CSN, Brazil's biggest steel group, and Thyssen Krupp Stahl of Germany, the world's third biggest, are to form a joint venture to make galvanised products for the motor industry in Brazil and the Mercosur countries.

The announcement follows the failure of the two to secure minority stakes in Acesita and CST, two other Brazilian steelmakers.

The stakes were bought on Monday by Usinor of France for R\$720m (US\$425m) in what was seen as a first step towards restructuring in the industry.

CSN and Thyssen will invest \$250m in the venture, known as GalvaSud, to begin operating in 2000 with an annual capacity of 350,000 tonnes.

CSN will have 51 per cent of its capital, but the companies will have equal control of management.

CSN said the deal was part of a strategy to bring advanced technology to Brazil through partnerships with foreign groups.

The company said it was close to reaching agreement

with Nucor of the US on a \$700m investment to build a steel mill in the country's north east.

It was also in talks with IMSA of Mexico on a cold and galvanised steel unit.

CSN appeared to put a brave face on its failure to secure the stakes in Acesita and CST, welcoming Usinor to Brazil.

Analysts say the arrival of the French group threatens the current dominance of the Brazilian market for intermediary and some speciality steel products by CSN and Usiminas, Brazil's second biggest steel company.

Usinor said it would press ahead with plans by CST to expand annual production of steel slabs from 3m to 4.5m tonnes and begin producing value-added hot rolled products from 2000.

Investment in Brazil's steel industry has been held back by its complex ownership structure and lack of global operators.

Holders of minority stakes in several steel companies, including pension funds and iron ore group CVRD, are understood to be preparing to dispose of their interests.

ADDING VALUE ACROSS THE BOARD: TO SHAREHOLDERS, EMPLOYEES AND THE COMMUNITY.



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- In 1997, our income before tax, monetary adjustment and minority interest exceeded US\$1 bn.
- Koç Group foundations and family contribute to the community: promoting healthcare, preserving cultural heritage and protecting the environment.
- We own 3 of Turkey's top 10 most recalled consumer brands.



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NEWS DIGEST

STEEL

Ispat, Inland reach final agreement on \$1.4bn deal

Ispat, the international steel producer, and Chicago-based Inland Steel said yesterday they had reached definitive agreement on a \$1.43bn deal under which Ispat will acquire Inland's steel manufacturing operations. The transaction was first announced in outline form in March, with the two companies saying they hoped to close the transaction in the third quarter of 1998. However, Robert Damall, Inland chairman, said yesterday the final agreement contemplated closing the deal on June 30, assuming all remaining conditions are met.

Inland added that it planned to return a "significant portion" of the net proceeds from the sale of the manufacturing operations to shareholders by holding a tender offer to buy back its own shares. "The tender offer will take the form of a Dutch auction and should be completed about one month after the auction begins," it said. Once the tender offer is completed, Inland will then merge its remaining assets into Ryerson Tull, its 87 per cent-owned metals distribution subsidiary which is already listed. Nikkai Tait, Chicago

INFORMATION SERVICES

Acxiom to buy May & Speh

Acxiom, the Arkansas-based data information and mailing list provider, yesterday confirmed it was acquiring Illinois' May & Speh, for about \$625m, in a share exchange deal. Like Acxiom, which has operations throughout the US and the UK, May & Speh specialises in providing direct marketing and information technology outsourcing - such as systems consulting, data warehouses design, and list processing. The deal is the latest in a series of consolidation moves in the data-bases marketing services business. Nikkai Tait

PACIFIC ENTERPRISES/ENOVA

FERC approves \$6.6bn merger

The Federal Energy Regulatory Commission gave final approval yesterday to the \$6.6bn merger of Pacific Enterprises and Enova Corp which will create the largest utility in the US in terms of customer accounts. Pacific Enterprises and Enova said they plan to begin operating as a new company, which will be known as Semptra Energy, by late summer.

The merger still needs Securities and Exchange Commission approval. Enova is an energy management group providing electricity, gas and other products in the US and Mexico. Pacific Enterprises is an energy-services company, whose Southern California Gas unit is the nation's largest natural gas distributor. Reuters, Washington

Kone, Toshiba unveil global alliance

There are no current plans, however, for any cross-shareholdings. Last year, Kome reported pre-tax profits of ¥M202m on sales of ¥M12.3bn. Toshiba did not break out profits for its elevator and escalator activities.

FINANCIAL TIMES

COMPANIES & FINANCE: UK

TELECOMMUNICATIONS GROUP CLAIMS TO BE FIRST TO OFFER 'VIRTUAL PRIVATE DATA NETWORKING' BASED ON INTERNET TECHNOLOGY

Energis unveils cost-cutting service

By Alan Cane

Energis, the UK telecommunications company, said yesterday it would be the first to offer business customers an advanced service which could sharply reduce their network management costs.

Called "virtual private data networking", the service is possible because of technological advances

which enable much of the equipment which customers use to manage their network to be built into the network itself and controlled by the network operator.

The service will provide customers with digital voice and data communications based on internet technology without the need for equipment on their premises.

Energis, which sells to business customers, uses

fibres optic lines wrapped round the cables of the National Grid, which has a majority stake in the group.

Chris Burke, Energis network director, said the group was leading the race to virtual data networking because of development partnerships it has signed with Northern Telecom and Newbridge Networks, Canadian based companies which are leaders in telecommunica-

tions and data networking.

He said Energis would provide virtual data networking in the third quarter of this year, although he did not expect customers to take the service in large numbers until 1999.

Energis also announced results for the year to March 31 slightly ahead of market expectations. The company, which floated last December, lifted turnover 73 per cent to

£167.9m while earnings before interest, tax, depreciation and amortisation were £16.1m (£14.3m losses). The gross profit margin before network depreciation almost doubled from 17.7 to 33.9 per cent. Mike Grabner, chief executive, said revenues from higher margin, advanced services grew 32 per cent. The company had signed networking contracts with holiday group Goleg

Places and consultancy Ernst & Young. It is also to install a new telecoms system for the National Grid, extending the network by a further 1,450km.

Mr Grabner said Energis intended to apply for a "third generation" mobile phone licence when the necessary radio spectrum was auctioned next year to create a combined fixed and mobile phone company.

COMMENT

British Airways

It is strange to see British Airways only now entering recovery mode. Its US peers have been reporting bumper profits, but are close to their peak. Meanwhile BA saw pre-tax profits, excluding disposal gains, fall to £406m, not a great return on £3.6bn sales. But, of course, it was something of an annual horribilis for BA, with the cabin crew strike and strong pound knocking £326m off the total. Indeed chief executive Robert Ayling, occasional recipient of bouquets of barbed wire, earned some plaudits yesterday for his cost-cutting drive.

This year the negatives should turn positive and there is another £250m of savings to come. With economic recovery in Europe kicking in, revenues should pick up speed. BA is going for growth with a 12 per cent capacity increase. All this should secure a profits rebound to £650m-£700m, an implied price/earnings ratio of about 11. After a dismal performance in 1997, the shares should build on their recent tentative recovery.

But while a re-rating looks in order on the back of the cost reform, the discount is unlikely to disappear. Cyclical, heavy capital spending demands and a wearisome stream of planes and minuses detract from the earnings quality. BA must hope that its alliance with American Airlines is approved in time to cushion profits against the next downturn. That alliance should also provide a good vehicle for expansion in Asia, notably via the Japanese airline JAL. Meanwhile BA should seize opportunities to form links with sizeable, but temporarily disoriented, south-east Asian carriers.

Share price relative to the FTSE 100 index

Source: Financial Times

1997 1998

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Powerscreen's problems go beyond Matbro

By Robert Wright

Powerscreen International, the troubled Northern Irish engineer, yesterday acknowledged for the first time it expected results for the year to March 1998 to be hit by further problems going beyond its former Matbro subsidiary.

The admission, in a trading statement, that there were problems at Powerscreen's Brown Lenox and Royer subsidiaries goes against statements made by the company since it announced a £46.6m provision for accounting problems at Matbro in January.

Powerscreen's shares fell 29p - 17 per cent - to 110p. Analysts said they would have fallen further had they not been hit on Tuesday by a large sale. They were 613p before January's warning.

Powerscreen said that, after meeting its auditors, it now expected pre-tax losses for the year to March 1998 to total £63m (£109m), a huge increase on the £10m pre-tax loss predicted in January. The loss is particularly sharp compared with the £40m-£50m pre-tax profit analysts were expecting until January.

Powerscreen was also forced to go back on its previous insistence that losses caused by accounting mal-

practice occurred mainly in the year to March 1998. The company said about £20m of the losses for the past year would be for losses accumulated in previous years.

The results will include a further £3m for Matbro's trading losses between January and its sale in April to John Deere of the US. There will also be a £4m provision for professional fees on the investigation into Matbro, which made tractors.

More surprising, however, were provisions of £11.5m for the write-off of assets, mainly at Brown Lenox and Royer, which make stone crushing equipment. Brown Lenox is thought to be responsible for about half the £20m of hidden losses from previous years, with Matbro responsible for the other half. The year's results will also be hit by a £14m provision for putting accounting policies on a more conservative basis.

Powerscreen said it intended to dispose of businesses outside its profitable core of stone crushing and screening equipment.

The company said the Matbro losses were a result of mispricing of machines, unauthorised discounts offered to customers and inaccurate and misleading recording and discounting of bills of exchange.

Thorn proposes divestments

By Robert Wright

Thorn, the rentals group that includes Radio Rentals, has announced plans to divest itself of all but its core UK operations in an effort to realise its full value.

The proposed sell-offs are the result of a strategic review, announced last October, which concluded there was a gap between the market valuation of the company and the likely value of the businesses at sell-off. Thorn will return the cash to shareholders.

The announcements came with Thorn's full-year results and as the company appeared to dampen hopes that continuing takeover talks with a mystery bidder, and Frederick Barclay, the hotel and newspaper owners, would lead to an offer.

The UK businesses which will remain after the sell-offs were responsible for only 34 per cent of Thorn's turnover last year. The plan to sell the businesses in North and

South America, many facing legal action, had already been announced. These accounted for 45 per cent of turnover in the year to March 31.

Steven Marshall, chief executive, indicated that other businesses to be sold could include Thorn's Scandinavian operations, which accounted for 11 per cent of last year's sales and Asia Pacific, with 5 per cent.

The company also announced it would withdraw from a number of activities, including the renting of personal computers in the UK and of furniture in Scandinavia, while trials of credit sale stores in the US would be terminated.

Some analysts were uncertain how to value the UK and American businesses. The UK business lost ground quickly over the past year, while the US business is facing expensive litigation, mainly over its rent-to-own programmes. However, one analyst priced the group at about 220p a share, or £933m



Steven Marshall: reshaping the group

David Ahmed

(£1.56bn), compared with a current market capitalisation of about £863m.

Thorn made pre-tax profits of £28.5m (£103m) on sales of £283.5m (£1.28bn). Operating profits of £26.5m (£134m) were reduced by £38.6m of

exceptional charges.

Provisions were made for store closures, restructuring, property losses, write-downs of rental assets, year 2000 costs and a new £5.7m provision against loss of a legal case in the US.

EMI chief dismisses speculation about bid talks

By Alan Newhall

Sir Colin Southgate, EMI's chairman, yesterday said he had received no further approaches from prospective predators since breaking off takeover talks with Seagram, the Canadian group which last week clinched a £10.5bn deal to buy PolyGram.

"There's no conversation going on whatsoever," he said. "We're getting on with running the business."

Sir Colin hoped Seagram's decision to buy PolyGram would squash long-running speculation of a bid for EMI, which owns the world's largest music publisher as well as the record companies behind Garth Brooks,

Radiohead, The Verve and the Spice Girls.

"It was very unsettling for people in the company to hear us being talked about as if we were up for sale," he said. "We did have a number of conversations with Seagram, but nothing was ever agreed."

Sir Colin dismissed speculation that EMI might

attract a bid from a US leveraged buy-out fund, arguing that it would be too expensive. "The funds looked at PolyGram, but the figures didn't add up. One of them called me. They just couldn't do it. Seagram was able to buy PolyGram because there's £350m to £400m of synergistic benefits."

His comments came as

EMI reported a fall in profits before tax and exceptional charges to £307.1m (£513m) in the year to March 31, against £380.6m, having been hit by the strong pound, the economic downturn in Asia, and higher interest payments. The shares, at 807p a month ago after Seagram's approach, fell 12p to 520p.

Sir Colin expects to see an

improvement in the company's performance this year, reflecting reduced losses in Asia and further financial benefits from its US restructuring. He also claimed he could comfortably combine his new responsibilities as chairman of the Royal Opera House, with his EMI duties.

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EURO PRICES

EQUITIES

Continent suffers sharp falls

EUROPEAN OVERVIEW

By Simon Davies

Capital Markets Editor

Pan-European stockmarkets came under attack from all fronts yesterday. Overnight weakness on Wall Street combined with collapsing markets in Asia and Eastern Europe to generate sharp falls throughout the continent.

The FTSE Eurotop 100 index fell 62.8 or 2.18 per cent to 2,812.42, and the broader Eurotop 300 index fell 25.06 points to 1,226.91. The Euronext 100 index, which only includes stocks from

the future euro zone, fell 2.78 per cent.

Continental European bond markets benefited initially from a flight to safety into US Treasury bonds, but ended mostly unchanged.

Analysts said it would take an interest rate cut to push yields much lower.

In pan-European equity markets, the declines were evenly spread across the sectors, although financial

line of attack would have been the banking sector, and it is not off as much as I would have expected. Other vulnerable sectors could be oil, steel, and lower value-added industries.

Asian stock markets fell sharply, but it was Russia that raised the most concern. The stock market fell another 11 per cent, and interest rates were hiked by 100 percentage points in a desperate measure to shore up the financial markets.

Some analysts suggested that any contagion through eastern Europe could feed through into pan-European earnings, in the same way as

the Asian slowdown is now hurting US earnings forecasts.

German auto stocks were hit hard, with BMW down Ecu 24.8 to Ecu 918.83 and Volkswagen down Ecu 31.9 to Ecu 738.12. Daimler-Benz fared slightly better following an upbeat annual general meeting, and its shares fell Ecu 2 to Ecu 89.89.

The Belgian bank group Générale de Banque continued to benefit from its rival bids, with its shares rising another Ecu 6.3 to Ecu 89.17.

The information technology sector fell sharply. SAP lost Ecu 26.7 to Ecu 494.84.

FTSE Actuaries Share Indices

European series

Based on the population of the European countries of the FTSE

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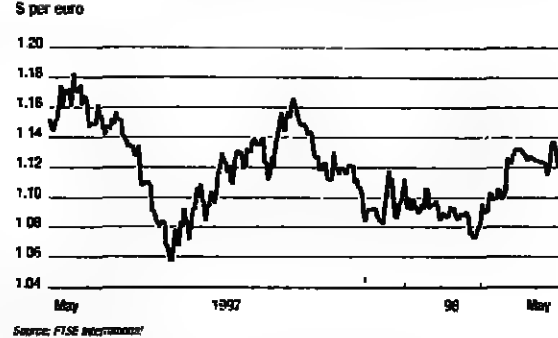
May 27

CURRENCIES & MONEY

FT SYNTHETIC EURO RATES

Country	Currency	Rate	Change on day	Change on week	Change on month	Change on year
Europe	ATS	14.577675	+0.0043	+0.0064	+0.0064	+0.0064
Austria	BEF	41.248858	+0.0024	+0.0047	+0.0047	+0.0047
Belgium	DKK	37.539727	+0.0007	+0.0007	+0.0007	+0.0007
Denmark	FFM	7.014568	+0.0007	+0.0007	+0.0007	+0.0007
France	FRF	6.576741	+0.0007	+0.0007	+0.0007	+0.0007
Germany	DEM	5.704170	+0.0007	+0.0007	+0.0007	+0.0007
Greece	ESP	1.668990	+0.0007	+0.0007	+0.0007	+0.0007
Italy	ITL	344.851025	+0.0007	+0.0007	+0.0007	+0.0007
Netherlands	FLP	200.017736	+0.0007	+0.0007	+0.0007	+0.0007
Portugal	ESP	0.703658	+0.0007	+0.0007	+0.0007	+0.0007
Spain	ITL	1970.226735	+0.0007	+0.0007	+0.0007	+0.0007
Sweden	SEK	41.248858	+0.0007	+0.0007	+0.0007	+0.0007
Switzerland	CHF	2.253555	+0.0007	+0.0007	+0.0007	+0.0007
United Kingdom	GBP	3.567728	+0.0007	+0.0007	+0.0007	+0.0007
USA	USD	204.726855	+0.0007	+0.0007	+0.0007	+0.0007
Japan	JPY	96.431205	+0.0007	+0.0007	+0.0007	+0.0007
South Korea	KRW	6.545488	+0.0007	+0.0007	+0.0007	+0.0007
China	CNY	38.727720	+0.0007	+0.0007	+0.0007	+0.0007
India	INR	1.651987	+0.0007	+0.0007	+0.0007	+0.0007
Indonesia	IDR	1.651987	+0.0007	+0.0007	+0.0007	+0.0007
Malaysia	MYR	1.651987	+0.0007	+0.0007	+0.0007	+0.0007
Philippines	PHP	1.651987	+0.0007	+0.0007	+0.0007	+0.0007
Singapore	S\$	1.651987	+0.0007	+0.0007	+0.0007	+0.0007
Taiwan	NT\$	1.651987	+0.0007	+0.0007	+0.0007	+0.0007
Thailand	THB	1.651987	+0.0007	+0.0007	+0.0007	+0.0007
Vietnam	VND	1.651987	+0.0007	+0.0007	+0.0007	+0.0007

Synthetic Euro against the dollar



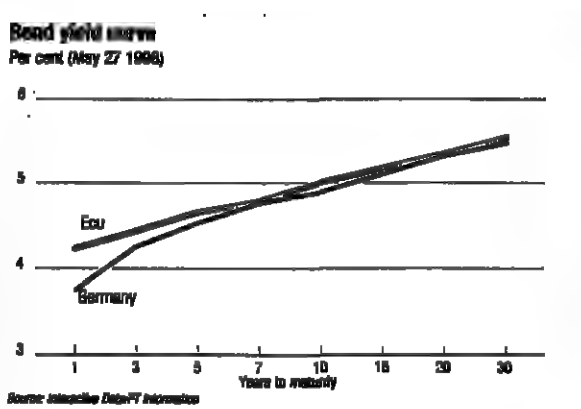
EUROZONE CURRENCY CONVERGENCE

Country	Rate	Change on day	Change on week	Change on month	Change on year
Europe	1.0000	0.0000	0.0000	0.0000	0.0000
Austria	1.336332	+0.0001	+0.0001	+0.0001	+0.0001
Belgium	20.3625	+0.0001	+0.0001	+0.0001	+0.0001
Denmark	3.333333	+0.0001	+0.0001	+0.0001	+0.0001
France	3.333333	+0.0001	+0.0001	+0.0001	+0.0001
Germany	1.000000	0.0000	0.0000	0.0000	0.0000
Italy	936.267	+0.0001	+0.0001	+0.0001	+0.0001
Netherlands	20.3625	+0.0001	+0.0001	+0.0001	+0.0001
Portugal	200.000	+0.0001	+0.0001	+0.0001	+0.0001
Spain	166.373	+0.0001	+0.0001	+0.0001	+0.0001
Sweden	1.336332	+0.0001	+0.0001	+0.0001	+0.0001
Switzerland	1.336332	+0.0001	+0.0001	+0.0001	+0.0001
United Kingdom	1.336332	+0.0001	+0.0001	+0.0001	+0.0001
USA	1.336332	+0.0001	+0.0001	+0.0001	+0.0001
Japan	1.336332	+0.0001	+0.0001	+0.0001	+0.0001
South Korea	1.336332	+0.0001	+0.0001	+0.0001	+0.0001
China	1.336332	+0.0001	+0.0001	+0.0001	+0.0001
India	1.336332	+0.0001	+0.0001	+0.0001	+0.0001
Indonesia	1.336332	+0.0001	+0.0001	+0.0001	+0.0001
Malaysia	1.336332	+0.0001	+0.0001	+0.0001	+0.0001
Philippines	1.336332	+0.0001	+0.0001	+0.0001	+0.0001
Singapore	1.336332	+0.0001	+0.0001	+0.0001	+0.0001
Taiwan	1.336332	+0.0001	+0.0001	+0.0001	+0.0001
Thailand	1.336332	+0.0001	+0.0001	+0.0001	+0.0001
Vietnam	1.336332	+0.0001	+0.0001	+0.0001	+0.0001

Source: The Bank of England. Rates are shown in pence per £1. The Bank of England's latest published rates are used. The Bank of England's latest published rates are used. The Bank of England's latest published rates are used.

BONDS

BOND YIELD CURVE



GOVERNMENT BOND SPREADS vs ECU

Country	Rate	Change on day	Change on week	Change on month	Change on year
Europe	1.0000	0.0000	0.0000	0.0000	0.0000
Austria	1.336332	+0.0001	+0.0001	+0.0001	+0.0001
Belgium	20.3625	+0.0001	+0.0001	+0.0001	+0.0001
Denmark	3.333333	+0.0001	+0.0001	+0.0001	+0.0001
France	3.333333	+0.0001	+0.0001	+0.0001	+0.0001
Germany	1.000000	0.0000	0.0000	0.0000	0.0000
Italy	936.267	+0.0001	+0.0001	+0.0001	+0.0001
Netherlands	20.3625	+0.0001	+0.0001	+0.0001	+0.0001
Portugal	200.000	+0.0001	+0.0001	+0.0001	+0.0001
Spain	166.373	+0.0001	+0.0001	+0.0001	+0.0001
Sweden	1.336332	+0.0001	+0.0001	+0.0001	+0.0001
Switzerland	1.336332	+0.0001	+0.0001	+0.0001	+0.0001
United Kingdom	1.336332	+0.0001	+0.0001	+0.0001	+0.0001
USA	1.336332	+0.0001	+0.0001	+0.0001	+0.0001
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Taiwan	1.336332	+0.0001	+0.0001	+0.0001	+0.0001
Thailand	1.336332	+0.0001	+0.0001	+0.0001	+0.0001
Vietnam	1.336332	+0.0001	+0.0001	+0.0001	+0.0001

EUROZONE CREDIT SPREADS vs ECU

Country	S & P	Rate	Coupon	Commodity	Spread	Spread	Spread
					ago	ago	ago
Qatar	A++	01/09	5.00%	DEM	-0.01	+0.01	+0.12
Paraguay Telecom	A++	11/08	5.25%	FRF	+0.11	+0.18	+0.38
Paraguay	A++	07/07	5.85%	DEM	+0.18	+0.20	+0.34
Paraguay State Inv	A++	07/08	5.50%	MLG	+0.17	+0.18	+0.31
Paraguay Invest Wk RA	A+	02/02	6.75%	DEM	+0.27	+0.38	+0.59
Chad Petroleum	A	02/03	6.25%	DEM	+0.27	+0.33	+0.64
Comoros-Deseret Int	A	03/04	0.375	FRF	+0.29	+0.31	+0.83
Comoros-Deseret Int	BBB+	03/04	0.150	FRF	+0.38	+0.38	+0.82
Bank of China	BBB	07/89	7.12%	DEM	+0.78	+0.78	+0.88
Bank of China	BBB	06/91	7.00%	ATS	+0.74	+0.69	+0.62
Bank of China	B+	11/02	5.625	FRF	+0.41	+0.43	+0.78

Source: Interactive GlobalPFI information. Table shows credit ratings by the S&P scale for issuers of the respective representations credit in each rating band. Issuances in US \$ = US \$ millions.

NEWS DIGEST

Traders were looking for bonds to test the key 108 basis point barrier but saw little on the domestic front to spark activity.

In the UK, short sterling and GILTS slipped on comments by Bank of England economist Mervyn King that earnings growth was still a worry and that the risk remains of "stubbornly buoyant" domestic consumption, in spite of recent soft retail sales figures.

By mid-session, the June gilt future was down 0.6 basis points at 108.99, off an earlier high of 109.19.

Volume was heavy with 180,000 contracts traded by the close, which saw the June contract settle at 109.01, down 0.20 basis points.

The December short sterling future closed 3 basis points down at 92.76, largely rulling out any rate change before the end of the year.

Borrower	Amount in US DOLLARS	Coupon %	Price	Maturity	Yield %	Spread bp	Book-runner
Amoco Corp	300	6.00	99.9918	Jun 2008	0.3291	+335(May08)	Morgan Stanley DW
Atlantic Aluminum	300	(a)	103.0000	Undated	0.1879	-	J.P. Morgan
Banco Ita Unifin Ltd(b)	200	10.00	100.0181	Jun 2009	0.0691	-	Salomon Brothers Int
Bendigo Bank Ltd	100	(a)	99.9921	Jun 2001	0.1715	-	Deutsche Bank
Barclays Capital Cymru(m)	50	1(1-10)	100.00	Jul 2003	0.50	-	Barclays Capital
J.P. 04-059990							
Banque Paribas	750	4.75	98.1669	Jun 2003	0.300	+165(May08)	Barclays Capital/Paribas
TMBT, Class 1A(b)	200	(f) 10.0000	Jul 2001	0.258	-	-	SBIC Working Union Res
TMBT, Class 2A(b)	100	(g, h) 10.0000	Jul 2003	0.269	-	-	SBIC Working Union Res
Oest Volksbank(b)	100	(f) 101.30	Jun 2003	undated	-	-	OBS Bank
J.P. 07589300							
NW Bank Housing Assoc(f)	100	6.625(b)	100.5217	Sep 2008	0.6589	+878(Jun-08)	Dresner CB
World Bank(b)	50	6.12	100.00	Jul 2000	1.01	-	IBJ International
J.P. 07589300							
Dresner Finance	25m	6.25(b)	95.429	Jun 2008	0.5739	+829	Dresner CB
Caja de Madrid	1.8m	6.75	98.7272	Jun 2004	0.300	+180	CAN
J.P. 07589300							
Province of Ontario	250	2.60	101	Jul 2003	2.00	-	CBSB/Merrill Lynch
J.P. 07589300							
BAL(b)	50	6.00	100.00	Jun 2000	none	-	BN
J.P. 07589300							
Genifrance Luxembourg	25m	6.50	106.10	Jun 2000	2.00	-	BSL
J.P. 07589300							
World Bank	100m	8.00	101.58	Jun 2001	1.80	-	GS&F

(a) Floating rate. (b) Floating rate. (c) Floating rate. (d) Floating rate. (e) Floating rate. (f) Floating rate. (g) Floating rate. (h) Floating rate. (i) Floating rate. (j) Floating rate. (k) Floating rate. (l) Floating rate. (m) Floating rate. (n) Floating rate. (o) Floating rate. (p) Floating rate. (q) Floating rate. (r) Floating rate. (s) Floating rate. (t) Floating rate. (u) Floating rate. (v) Floating rate. (w) Floating rate. (x) Floating rate. (y) Floating rate. (z) Floating rate. (aa) Floating rate. (ab) Floating rate. (ac) Floating rate. (ad) Floating rate. (ae) Floating rate. (af) Floating rate. (ag) Floating rate. (ah) Floating rate. (ai) Floating rate. (aj) Floating rate. (ak) Floating rate. (al) Floating rate. (am) Floating rate. (an) Floating rate. (ao) Floating rate. (ap) Floating rate. (aq) Floating rate. (ar) Floating rate. (as) Floating rate. (at) Floating rate. (au) Floating rate. (av) Floating rate. (aw) Floating rate. (ax) Floating rate. (ay) Floating rate. 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The \$110 million syndicated loan to fund Texas Utilities' acquisition of El Paso Energy Group has closed with strong support from a syndicate of 18 international banks.

Peter Gleytshen, head of global syndicated finance at Chase, one of the three lead banks, said: "This is proof positive of the overall health and depth of liquidity of the global bank market for qualified borrowers in well structured deals." The other lead managers were Lehman Brothers and Merrill Lynch.

It was a complex transaction, with six bank facilities for four separate borrowers, ranging from Texas itself to the UK operating companies. It was also the largest ever broadly syndicated loan for a European acquisition.

But the sub-underwriting banks were committed to taking \$500m each of the loan, but demand was sufficiently strong that sources said they had been allocated less than \$350m.

The deal has come at a difficult time for the syndicated loan market, with the Japanese banks substantially withdrawing, and several European banks also reducing their participation. A number of deals have struggled so far this year, but bankers said the Texas loan was "priced to go". Simon Davies

NEW BOND PORTFOLIO (ACTIVE) EXHIBITURE									
	Open	Set price	Change	High	Low	Est. vol.	Open int.		
Jan	105.00	103.86	+0.26	105.00	103.86		4,967		
U.S. CORPORATE BONDS									
	Set date	Par	St & P	Bid price	Bid yield	Days to close	Mkt's change	5 yr	5 yr
								change	rate
RECORDED									
Pay Dbl.	07/02	7.25	A-	104.2620	8.06	-0.23	-0.07	+0.47	
Pay Tr.	08/26	7.25	A+	105.5226	7.40	-0.04	-0.00	+0.10	
Pay Tr.	05/08	6.00	B/B+	111.0027	6.48	-0.05	-0.09	+0.00	
NONRECORDED									
Pay Dbl.	08/07	8.75	N/A	117.8401	8.18	-0.08	-0.07	+0.00	
Pay Tr.	06/02	7.25	A+	108.9223	8.17	-0.04	-0.08	+0.00	
Pay Tr.	01/07	7.00	B/B+	127.1408	8.21	-0.08	-0.32	+0.03	
NONRECORDED									
Pay Tr.	04/08	6.25	B/B+	120.0388	8.18	-0.00	+0.04	+0.25	
Pay Tr.	08/02	6.75	N/A	102.5748	8.02	-0.23	-0.10	+0.33	
Pay Tr.	08/21	6.70	B/B+	133.3383	8.51	-0.09	-0.10	+0.07	
IN AGREEMENT									
Pay Tr.	04/07	7.14	N/A	108.5859	8.58	-0.09	-0.12	+0.30	
Pay Tr.	03/02	7.00	N/A	102.8886	8.70	-0.23	-0.07	+0.15	
Pay Tr.	02/15	6.00	N/A	121.8574	8.13	-0.05	-0.11	+0.29	
Pay Tr.	06/08	6.85	N/A	119.7131	8.83	-0.05	-0.10	+0.23	
IN COMMON VOUCHER									
Pay Tr.	02/01	8.88	B	102.6230	0.00	-	-	-	
Pay Tr.	12/01	8.13	B/B+	106.2500	0.00	-	-	-	
Pay Tr.	06/04	10.75	B	102.2500	0.00	-	-	-	

Source: Interactive Data/IFF Information.

U.S. INTEREST RATES									
Rate		Treasury Bills and Bond Yields				Other Rates			
		One month	Three month	One year	Two year	Five year	10 year	30 year	5 year
1-4 week rate	5 1/8	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00
1-4 month rate	5 1/8	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00
1-4 year rate	7 1/8	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00
1-4 month rate	7 1/8	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00
1-4 year rate	7 1/8	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00
1-4 month rate	7 1/8	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00
1-4 year rate	7 1/8	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00
1-4 month rate	7 1/8	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00
1-4 year rate	7 1/8	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00
1-4 month rate	7 1/8	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00
1-4 year rate	7 1/8	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00
1-4 month rate	7 1/8	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00
1-4 year rate	7 1/8	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00
1-4 month rate	7 1/8	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00
1-4 year rate	7 1/8	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00
1-4 month rate	7 1/8	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00
1-4 year rate	7 1/8	5.00	5.00	5.00					

May 27	Feb data	Compt	S & P Rating	Net price	Day's open ytd	May's high ytd	Spread to State	
IBM	04/07	8,870	AAA	105.710	4.98	-	-0.18	+0.05
Motor	04/07	8,730	A+	105.230	4.98	-	-0.17	+0.05
Walt Disney	05/04	8,970	A+	101.230	4.18	-0.02	-0.05	+0.07
General F&N	04/02	3,070	A+	102.912	5.04	-0.04	-0.14	-0.41
100% 20/20								
Boeing	01/04	3,500	AAA	104.000	4.98	-0.02	-0.17	+0.04
General Electric	04/02	8,650	AA	105.140	4.98	-	-0.15	+0.05
Rockefeller	04/04	8,150	A+	108.030	4.98	-0.02	-0.16	+0.05
SCF F&N	12/01	3,025	AA	98.750	4.17	-0.03	-0.12	-0.13
100% 20/20								
IBM	03/07	9,000	AAA	112.740	5.14	-0.02	-0.04	+0.07
Motor Nat	04/02	7,800	A+	105.910	4.91	-	-0.07	+0.07
Walt Disney	05/05	8,650	A+	107.420	4.78	-0.08	-0.15	+0.05
General F&N	03/01	3,350	AAA	100.030	4.30	-0.02	-0.14	-0.25
100% 20/20								
IBM	15/07	7,600	AAA	110.880	5.00	-0.01	-0.18	+0.05
General Electric	14/07	7,730	AA+	107.730	5.02	-0.01	-0.10	+0.02
Rockefeller	03/00	7,625	A+	107.085	5.00	-0.01	-0.04	+0.04
Motor Nat	03/02	7,800	A+	100.950	5.07	-	-0.04	+0.07
100% 20/20								
IBM	7/02	7,700	AAA	109.900	5.03	-0.04	-0.22	+0.05
General Electric	04/07	7,125	AA+	105.375	5.04	-0.03	-0.18	+0.05
Rockefeller	01/07	7,000	A+	104.752	5.20	-0.05	-0.15	+0.04
Motor Nat	04/04	6,704	A+	100.430	5.08	-	-0.30	+0.07
100% 20/20								
IBM	5/00	8,800	AAA	110.800	5.04	-0.03	-0.08	+0.10
General Electric	05/04	8,800	A+	114.274	5.00	-0.03	-0.08	+0.10
Rockefeller	07/78	10,625	A+	105.265	5.00	-0.02	-0.03	+0.08
Motor Nat	04/02	8,875	AA+	101.450	4.98	-0.02	-0.07	+0.08
100% 20/20								
IBM	03/02	8,550	AAA	116.700	5.78	-0.04	-0.18	+0.11
General Electric	04/02	8,700	A+	108.030	5.77	-0.02	-0.17	+0.10
Rockefeller	02/78	4,700	A	114.140	5.28	-0.02	-0.16	+0.07
Motor Nat	07/78	4,711	AA	100.515	5.07	-	-0.09	-0.12

Interest rates closing:

	May 27	May 26	May 25	May 24
100% 20/20	2.98	3.00	3.54	2.53
100% 20/20	2.70	2.75	3.00	2.25

Source: Intersect Data/Financial

UK Indices

	Low coupon yield	May 27	May 26	May 25	May 24	High coupon yield	May 27	May 26	May 25	May 24
5.70	5.06	7.08	6.06	6.06	7.14	5.07	4.87	5.07	7.10	
5.90	5.08	7.30	6.76	6.76	7.31	5.05	5.04	5.08	7.18	
5.90	5.08	7.38	6.74	6.74	7.32	5.08	5.04	5.08	7.42	
5.90	5.04	7.44								

— Inflation 9% —

	May 27	May 26	May 25	May 24
100% 20/20	2.98	3.00	3.54	2.53
100% 20/20	2.70</			

[illegible]

Price E - 4 -		52 Week High Low		Volume		Yield - 4 -		52 Week High Low	
				(1)		(2)			
12	93 1/2	100 1/2	105 1/2	100	100	2.28	3.02	100 1/2	105 1/2
13	94 1/2	101 1/2	106 1/2	101	101	2.28	3.02	101 1/2	106 1/2
14	95 1/2	102 1/2	107 1/2	102	102	2.28	3.02	102 1/2	107 1/2
15	96 1/2	103 1/2	108 1/2	103	103	2.28	3.02	103 1/2	108 1/2
16	97 1/2	104 1/2	109 1/2	104	104	2.28	3.02	104 1/2	109 1/2
17	98 1/2	105 1/2	110 1/2	105	105	2.28	3.02	105 1/2	110 1/2
18	99 1/2	106 1/2	111 1/2	106	106	2.28	3.02	106 1/2	111 1/2
19	100 1/2	107 1/2	112 1/2	107	107	2.28	3.02	107 1/2	112 1/2
20	101 1/2	108 1/2	113 1/2	108	108	2.28	3.02	108 1/2	113 1/2
21	102 1/2	109 1/2	114 1/2	109	109	2.28	3.02	109 1/2	114 1/2
22	103 1/2	110 1/2	115 1/2	110	110	2.28	3.02	110 1/2	115 1/2
23	104 1/2	111 1/2	116 1/2	111	111	2.28	3.02	111 1/2	116 1/2
24	105 1/2	112 1/2	117 1/2	112	112	2.28	3.02	112 1/2	117 1/2
25	106 1/2	113 1/2	118 1/2	113	113	2.28	3.02	113 1/2	118 1/2
26	107 1/2	114 1/2	119 1/2	114	114	2.28	3.02	114 1/2	119 1/2
27	108 1/2	115 1/2	120 1/2	115	115	2.28	3.02	115 1/2	120 1/2
28	109 1/2	116 1/2	121 1/2	116	116	2.28	3.02	116 1/2	121 1/2
29	110 1/2	117 1/2	122 1/2	117	117	2.28	3.02	117 1/2	122 1/2
30	111 1/2	118 1/2	123 1/2	118	118	2.28	3.02	118 1/2	123 1/2
31	112 1/2	119 1/2	124 1/2	119	119	2.28	3.02	119 1/2	124 1/2
32	113 1/2	120 1/2	125 1/2	120	120	2.28	3.02	120 1/2	125 1/2
33	114 1/2	121 1/2	126 1/2	121	121	2.28	3.02	121 1/2	126 1/2
34	115 1/2	122 1/2	127 1/2	122	122	2.28	3.02	122 1/2	127 1/2
35	116 1/2	123 1/2	128 1/2	123	123	2.28	3.02	123 1/2	128 1/2
36	117 1/2	124 1/2	129 1/2	124	124	2.28	3.02	124 1/2	129 1/2
37	118 1/2	125 1/2	130 1/2	125	125	2.28	3.02	125 1/2	130 1/2
38	119 1/2	126 1/2	131 1/2	126	126	2.28	3.02	126 1/2	131 1/2
39	120 1/2	127 1/2	132 1/2	127	127	2.28	3.02	127 1/2	132 1/2
40	121 1/2	128 1/2	133 1/2	128	128	2.28	3.02	128 1/2	133 1/2
41	122 1/2	129 1/2	134 1/2	129	129	2.28	3.02	129 1/2	134 1/2
42	123 1/2	130 1/2	135 1/2	130	130	2.28	3.02	130 1/2	135 1/2
43	124 1/2	131 1/2	136 1/2	131	131	2.28	3.02	131 1/2	136 1/2
44	125 1/2	132 1/2	137 1/2	132	132	2.28	3.02	132 1/2	137 1/2
45	126 1/2	133 1/2	138 1/2	133					

Year 1999-2000	6.85	8.70	98%	+	100%	97%	Down from 2000-01	7.75
Year 2000-2001	5.77	6.70	100%	+	100%	100%	Down from 2001-02	6.50
Year 2001-2002	5.29	6.61	100%	+	100%	100%	Down from 2002-03	7.40
Year 2002-2003	5.29	6.61	100%	+	100%	100%	Down from 2003-04	7.17
Year 2003-2004	5.29	6.61	100%	+	100%	100%	Down from 2004-05	6.58
Year 2004-2005	5.29	6.61	100%	+	100%	100%	Down from 2005-06	7.40
Year 2005-2006	5.29	6.61	100%	+	100%	100%	Down from 2006-07	7.17
Year 2006-2007	5.29	6.61	100%	+	100%	100%	Down from 2007-08	7.40
Year 2007-2008	5.29	6.61	100%	+	100%	100%	Down from 2008-09	7.17
Year 2008-2009	5.29	6.61	100%	+	100%	100%	Down from 2009-10	7.40
Year 2009-2010	5.29	6.61	100%	+	100%	100%	Down from 2010-11	7.17
Year 2010-2011	5.29	6.61	100%	+	100%	100%	Down from 2011-12	7.40
Year 2011-2012	5.29	6.61	100%	+	100%	100%	Down from 2012-13	7.17
Year 2012-2013	5.29	6.61	100%	+	100%	100%	Down from 2013-14	7.40
Year 2013-2014	5.29	6.61	100%	+	100%	100%	Down from 2014-15	7.17
Year 2014-2015	5.29	6.61	100%	+	100%	100%	Down from 2015-16	7.40
Year 2015-2016	5.29	6.61	100%	+	100%	100%	Down from 2016-17	7.17
Year 2016-2017	5.29	6.61	100%	+	100%	100%	Down from 2017-18	7.40
Year 2017-2018	5.29	6.61	100%	+	100%	100%	Down from 2018-19	7.17
Year 2018-2019	5.29	6.61	100%	+	100%	100%	Down from 2019-20	7.40
Year 2019-2020	5.29	6.61	100%	+	100%	100%	Down from 2020-21	7.17
Year 2020-2021	5.29	6.61	100%	+	100%	100%	Down from 2021-22	7.40
Year 2021-2022	5.29	6.61	100%	+	100%	100%	Down from 2022-23	7.17
Year 2022-2023	5.29	6.61	100%	+	100%	100%	Down from 2023-24	7.40
Year 2023-2024	5.29	6.61	100%	+	100%	100%	Down from 2024-25	7.17
Year 2024-2025	5.29	6.61	100%	+	100%	100%	Down from 2025-26	7.40
Year 2025-2026	5.29	6.61	100%	+	100%	100%	Down from 2026-27	7.17
Year 2026-2027	5.29	6.61	100%	+	100%	100%	Down from 2027-28	7.40
Year 2027-2028	5.29	6.61	100%	+	100%	100%	Down from 2028-29	7.17
Year 2028-2029	5.29	6.61	100%	+	100%	100%	Down from 2029-30	7.40
Year 2029-2030	5.29	6.61	100%	+	100%	100%	Down from 2030-31	7.17
Year 2030-2031	5.29	6.61	100%	+	100%	100%	Down from 2031-32	7.40
Year 2031-2032	5.29	6.61	100%	+	100%	100%	Down from 2032-33	7.17
Year 2032-2033	5.29	6.61	100%	+	100%	100%	Down from 2033-34	7.40
Year 2033-2034	5.29	6.61	100%	+	100%	100%	Down from 2034-35	7.17
Year 2034-2035	5.29	6.61	100%	+	100%	100%	Down from 2035-36	7.40
Year 2035-2036	5.29	6.61	100%	+	100%	100%	Down from 2036-37	7.17
Year 2036-2037	5.29	6.61	100%	+	100%	100%	Down from 2037-38	7.40
Year 2037-2038	5.29	6.61	100%	+	100%	100%	Down from 2038-39	7.17
Year 2038-2039	5.29	6.61	100%	+	100%	100%	Down from 2039-40	7.40
Year 2039-2040	5.29	6.61	100%	+	100%	100%	Down from 2040-41	7.17
Year 2040-2041	5.29	6.61	100%	+	100%	100%	Down from 2041-42	7.40
Year 2041-2042	5.29	6.61	100%	+	100%	100%	Down from 2042-43	7.17
Year 2042-2043	5.29	6.61	100%	+	100%	100%	Down from 2043-44	7.40

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BASE CROSS

MONEY RATES

BASE LENDING RATES

COMMODITIES & AGRICULTURE

Hydro Aluminium to double production

Kenneth Gooding in Hangzhou

Hydro Aluminium, a subsidiary of Norsk Hydro, Norway's biggest quoted company, is soon to decide on the location of a new \$1.5bn smelter.

The smelter, to be built either in Trinidad or Qatar, will be its first outside Europe and part of one of the aluminium industry's most aggressive expansion programmes.

Hydro intends to double its annual aluminium production to 1.35m tonnes between 1996 and 2005. It will also probably expand annual capacity at its Sun-

dal smelter in Norway from 145,000 tonnes to 230,000 tonnes at a cost of \$300m. Since 1996 Hydro has reactivated 20,000 tonnes of capacity in Norway that was shut down in the early 1990s when a collapse in Russian demand caused a glut of aluminium. Two other smelters in Norway, Karmoy and Ardal, were expanded last year by a total of 47,000 tonnes at a cost of \$120m, lifting Hydro's annual capacity to 740,000 tonnes.

It aims to increase aluminium sales this year from 1.58m to 1.75m tonnes - the extra coming from buying in metal to remelt it.

Hydro is expanding its smelting operations to keep pace with growth in sales of downstream products such as extrusions, wire rod and foundry alloys. Its extrusion business, already the biggest in Europe, is also expected to double in size to about 650,000 tonnes by 2005.

To meet its aluminium expansion target Hydro needs 400,000 tonnes of new capacity outside Norway. The choice of location for a new smelter - Qatar or Trinidad - will depend greatly on the cost and supply of power. Either smelter would use natural gas.

In Qatar the domestic nat-

ural gas supply group would take 40 per cent of the project. Hydro might seek a partner in Trinidad if it went there, said Thomas Knutzen, manager of information and public affairs for Hydro Metal Products.

Hydro has yet to decide whether it would be better to start with a 200,000 tonnes a year smelter with the prospect of doubling capacity later, or to start with a 400,000 tonnes smelter.

Further ahead, Hydro is considering another \$1bn smelter project in Iceland. Other options for the longer term include expansion of the Slovakian plant in the Slo-

vak Republic by 30,000 tonnes to 140,000 tonnes. Hydro owns 10 per cent of Slovnaft and markets all its output. It has also started talks with Impmetmetal in Poland that might lead to a smelter being built there.

The expansion programme might change if Hydro is successful in a bid for the Venezuelan government's aluminium companies, which are likely to come up for tender again soon.

Hydro has joined Reynolds Metals of the US to tender but Mr Knutzen said there would be strong competition. He said the expansion programme would help cut

Hydro's average aluminium production costs. A recent reorganisation of Norwegian aluminium operations would help by reducing administrative costs by 30 per cent.

Hydro expects to add to its raw material supply via the \$1bn Utkal Alumina project in Orissa, India. The 1m tonnes a year project will initially be shared between Hydro, with 40 per cent, and Alcan of Canadian and two Indian groups, Tata and Indal, with 20 per cent each.

Once production is under way, possibly in five years' time, 25 per cent will be sold to Indian investors and Utkal will be listed in India.

Brazilian bid for inclusion by the CSCE under fire

Other coffee producers fear an extension of the country's hegemony in the world's markets, writes Jonathan Wheatley

Brazilian coffee exporters' bid to have their washed arabica beans added to the coffee deliverable against the "C" contract at the Coffee, Sugar & Cocoa Exchange in New York, the main global marketplace for such arabicas, seemed reasonable enough.

However, the move has attracted protests from rival producers, some of which regard it as another extension of Brazilian hegemony in the coffee world and as politically unacceptable.

The Brazilian exporters maintain that their coffee meets the contract's criteria and that Brazilian growers are put at an unfair disadvantage if it is not included in the list. In principle, the CSCE agrees, its coffee committee has recommended inclusion and its board of managers is receiving and examining comments.

But in practice the issue is not so straightforward. Colombia says Brazilian coffee is of such different quality

from that of other countries that it must not be included. Other producers, especially from Central America, say Brazilian coffees would flood the market and push prices down.

Their arguments have some foundation. The inclusion of Brazilian coffees might encourage more Brazilian growers to switch from unwashed to washed arabicas, thereby depressing prices. Brazil is expected to produce about 35m 60kg bags of coffee this year, of which about 1.2m bags will be washed arabicas.

The rest are mostly unwashed arabicas: coffee beans dried in the open air in a process peculiar to Brazil among the big producers. Such coffees tend to be of a lower quality. They are traded outside the CSCE, though the "C" contract is often used as a benchmark.

Most are sold at a discount of as much as 25 cents a bag to the "C" while some command small premiums.

Jorge Esteve, president of Abecafe, one of two rival organisations representing Brazilian exporters, says access to the "C" would have little impact on supply.

"Producing washed arabicas is an option for Brazilian growers whether they are quoted on the CSCE or not," he says, arguing that prices are set in the physical marketplace.

On the question of quality, he accepts that Brazilian coffees would be traded together on the CSCE in a restructured version of the extinct "B" contract. "No, no and no," says Mr Esteve. Unwashed coffees, he maintains, are best traded on Brazil's commodities and futures exchange, the BM&F. It plays a secondary role on global markets, but is working on building its profile.

Some observers see few problems in Brazil's move. "Anything that increases liquidity has to be beneficial for coffee traders," says Lawrence Eagles, head of



A taste for expansion: Brazil says bigger trading volumes on the CSCE would promote price stability

research at GNI, the UK-based commodities house. But others suggest producers' fears reflect a reluctance to witness a further extension of Brazilian hegemony in the coffee world.

They say it already dominates the Association of Coffee Producing Countries and the International Coffee Organisation, the industry's big international bodies. To those who already feel overshadowed by Brazil, its access to the "C" would be politically unacceptable.

Whatever the CSCE decides, nothing is expected to change for the next two

years. No decision is likely before the end of the year.

Were Brazil to be given the go-ahead, its coffee would not be deliverable before the first month for which there is no open interest - "possibly well into the year 2000", says the CSCE.

But Brazil's march into world markets continues. It has also applied for inclusion on the Tokyo Grain Exchange - a controversial move because, were Brazil to win its case, it would tend to take volume from New York, although Mr Esteve says this does not necessarily follow. He hopes to get the go-ahead by June.

Call for more production cuts by Opec

MARKETS REPORT

By Gary Mead

Another voice was added to the growing clamour for more production cuts by the Organisation of Petroleum Exporting Countries yesterday, when Sheikh Zaki Yamani, Saudi Arabia's former oil minister, said Opec will have to cut its production to 27m barrels a day if it hopes to see Brent prices stabilise at \$14 a barrel in the second half of 1998. Brent averaged \$19.32 a barrel in 1997.

In his capacity as chairman of the Centre for Global Energy Studies, he said Opec is currently running 400,000 b/d short of its pledge to reduce production by 1.24m b/d in March.

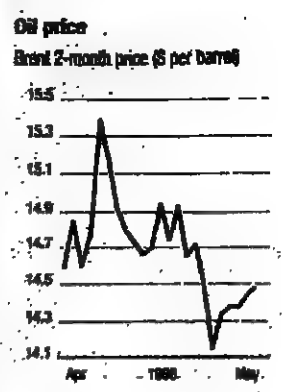
On London's International Petroleum Exchange Brent blend crude oil for July delivery initially lost a few cents but recovered in later trading to \$14.14 a barrel, only 1 cent lower than the previous close. However, traders said volumes were thin and there was little or no buying interest from US investment funds.

The London morning "fix" for gold was \$382.50 per troy ounce, \$5.35 lower than the previous fix, though slightly improved on the morning's \$382.75.

Overnight selling by investment funds in the US was seen as the biggest factor behind the slide.

Further bearish news came from Switzerland, where the federal government approved draft legislation that might pave the way for the Swiss National Bank ultimately to sell some 1,300 tonnes of gold, about 50 per cent of its reserves; although some traders said this expected move had long been factored into the price.

With soft commodities it was again a relatively quiet day on the London International Financial Futures Exchange, where total volume for coffee futures was 4,721 lots, most of which were traded in the morning session. July coffee closed just \$1 lower at \$1.830 a tonne.



Cocoa business was equally lacklustre; the July contract slipped \$10 but eventually ended the day unchanged at \$1,133 a tonne, on volume of 5,744 lots.

Activity on the London Metal Exchange was enervated, with all base metals looking for direction.

Three-month copper traded between \$1.040 and \$1.076 a tonne before finishing at \$1.076, up \$14 from Tuesday's close.

Renewed anxiety over the economies of south-east Asia helped depress sentiment. Brokers GNI said "continued weakness on the yen, which is dragging regional currencies with it, coupled with the austerity package in Russia, labour unrest in South Korea and weakness in the Dow are likely to add to the willingness of the [investment] funds to short the market".

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE

(Prices from Assorted Metal Trading)

ALUMINIUM, 99.7% (per tonne)

Close 1300-5-0.5
Previous 1304-5-0.5
High/Low 1297-2
1307-1305
All Official 1308-5-0.5
Korea class 1309-4-0
Open bid 1307-0.1
Total daily turnover 65,447

ALUMINIUM ALLOY (per tonne)

Close 1340-50
Previous 1340-50
High/Low 1293-4
1340-1340
All Official 1293-38
Korea class 1297-40
Open bid 1294-0.5
Total daily turnover 7,828

LEAD (per tonne)

Close 544.5-5.5
Previous 544.5-5.5
High/Low 541-5.5
1501-550
All Official 548-40
Korea class 550-50
Open bid 550-1
Total daily turnover 4,814

INCO (per tonne)

Close 4810-10
Previous 4810-20
High/Low 4800-20
1501-550
All Official 4780-40
Korea class 4800-20
Open bid 4800-20
Total daily turnover 12,373

INCO (per tonne)

Close 4810-10
Previous 4810-20
High/Low 4800-20
1501-550
All Official 4780-40
Korea class 4800-20
Open bid 4800-20
Total daily turnover 12,373

INCO (per tonne)

Close 4810-10
Previous 4810-20
High/Low 4800-20
1501-550
All Official 4780-40
Korea class 4800-20
Open bid 4800-20
Total daily turnover 12,373

INCO (per tonne)

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Previous 4810-20
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Korea class 4800-20
Open bid 4800-20
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All Official 4780-40
Korea class 4800-20
Open bid 4800-20
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Korea class 4800-20
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Korea class 4800-20
Open bid 4800-20
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Open bid 4800-20
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Open bid 4800-20
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All Official 4780-40
Korea class 4800-20
Open bid 4800-20
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INCO (per tonne)

Close 4810-10
Previous 4810-20
High/Low 4800-20
1501-550
All Official 4780-40
Korea class 4800-20
Open bid 4800-20
Total daily turnover 12,373

INCO (per tonne)

Close 4810-10
Previous 4810-20
High/Low 4800-20
1501-550
All Official 4780-40
Korea class 4800-20
Open bid 4800-20
Total daily turnover 12,373

INCO (per tonne)

Close 4810-10
Previous 4810-20
High/Low 4800-20
1501-550
All Official 4780-40
Korea class 4800-20
Open bid 4800-20
Total daily turnover 12,373

PRECIOUS METALS continued

IN GOLD COMEX (100 Troy oz; \$ per oz)

Close 293.7-1.7
Previous 293.7-1.7
High/Low 293.7-1.7
1501-550
All Official 293.7-1.7
Korea class 293.7-1.7
Open bid 293.7-1.7
Total daily turnover 12,373

IN SILVER COMEX (100 Troy oz; \$ per oz)

Close 5.15-0.15
Previous 5.15-0.15
High/Low 5.15-0.15
1501-550
All Official 5.15-0.15
Korea class 5.15-0.15
Open bid 5.15-0.15
Total daily turnover 12,373

IN PLATINUM COMEX (500 Troy oz; \$ per oz)

Close 574.1-5.1
Previous 574.1-5.1
High/Low 574.1-5.1
1501-550
All Official 574.1-5.1
Korea class 574.1-5.1
Open bid 574.1-5.1
Total daily turnover 12,373

IN PALLADIUM COMEX (500 Troy oz; \$ per oz)

Close 374.1-3.1
Previous 374.1-3.1
High/Low 374.1-3.1
1501-550
All Official 374.1-3.1
Korea class 374.1-3.1
Open bid 374.1-3.1
Total daily turnover 12,373

IN RUBLE COMEX (1000 Rubles; \$ per 1000)

Close 13.50-0.50
Previous 13.50-0.50
High/Low 13.50-0.50
1501-550
All Official 13.50-0.50
Korea class 13.50-0.50
Open bid 13.50-0.50
Total daily turnover 12,373

IN RUPEE COMEX (1000 Rupees; \$ per 1000)

Close 13.50-0.50
Previous 13.50-0.50
High/Low 13.50-0.50
1501-550
All Official 13.50-0.50
Korea class 13.50-0.50
Open bid 13.50-0.50
Total daily turnover 12,373

IN YEN COMEX (1000 Yen; \$ per 1000)

Close 13.50-0.50
Previous 13.50-0.50
High/Low 13.50-0.50
1501-550
All Official 13.50-0.50
Korea class 13.50-0.50
Open bid 13.50-0.50
Total daily turnover 12,373

IN ZINC COMEX (1000 lbs; \$ per 1000)

Close 13.50-0.50
Previous 13.50-0.50
High/Low 13.50-0.50
1501-550
All Official 13.50-0.50
Korea class 13.50-0.50
Open bid 13.50-0.50
Total daily turnover 12,373

IN COINAGE GOLD (1000 gms; \$ per 1000)

Close 13.50-0.50
Previous 13.50-0.50
High/Low 13.50-0.50
1501-550
All Official 13.50-0.50
Korea class 13.50-0.50
Open bid 13.50-0.50
Total daily turnover 12,373

IN COINAGE SILVER (1000 gms; \$ per 1000)

Close 13.50-0.50
Previous 13.50-0.50
High/Low 13.50-0.50
1501-550
All Official 13.50-0.50
Korea class 13.50-0.50
Open bid 13.50-0.50
Total daily turnover 12,373

IN COINAGE PLATINUM (1000 gms; \$ per 1000)

Close 13.50-0.50
Previous 13.50-0.50
High/Low 13.50-0.50
1501-550
All Official 13.50-0.50
Korea class 13.50-0.50
Open bid 13.50-0.50
Total daily turnover 12,373

IN COINAGE PALLADIUM (1000 gms; \$ per 1000)

Close 13.50-0.50
Previous 13.50-0.50
High/Low 13.50-0.50
1501-550
All Official 13.50-0.50
Korea class 13.50-0.50
Open bid 13.50-0.50
Total daily turnover 12,373

IN COINAGE RUBLE (1000 Rubles; \$ per 1000)

Close 13.50-0.50
Previous 13.50-0.50
High/Low 13.50-0.50
1501-550
All Official 13.50-0.50
Korea class 13.50-0.50
Open bid 13.50-0.50
Total daily turnover 12,373

IN COINAGE RUPEE (1000 Rupees; \$ per 1000)

Close 13.50-0.50
Previous 13.50-0.50
High/Low 13.50-0.50
1501-550
All Official 13.50-0.50
Korea class 13.50-0.50
Open bid 13.50-0.50
Total daily turnover 12,373

IN COINAGE YEN (1000 Yen; \$ per 1000)

Close 13.50-0.50
Previous 13.50-0.50
High/Low 13.50-0.50
1501-550
All Official 13.50-0.50
Korea class 13.50-0.50
Open bid 13.50-0.50
Total daily turnover 12,373

IN COINAGE ZINC (1000 lbs; \$ per 1000)

Close 13.50-0.50
Previous 13.50-0.50
High/Low 13.50-0.50
1501-550
All Official 13.50-0.50
Korea class 13.50-0.50
Open bid 13.50-0.50
Total daily turnover 12,373

IN COINAGE COIN (1000 gms; \$ per 1000)

Close 13.50-0.50
Previous 13.50-0.50
High/Low 13.50-0.50
1501-550
All Official 13.50-0.50
Korea class 13.50-0.50
Open bid 13.50-0.50
Total daily turnover 12,373

IN COINAGE COIN (1000 gms; \$ per 1000)

Close 13.50-0.50
Previous 13.50-0.50
High/Low 13.50-0.50
1501-550
All Official 13.50-0.50
Korea class 13.50-0.50
Open bid 13.50-0.50
Total daily turnover 12,373

IN COINAGE COIN (1000 gms; \$ per 1000)

Close 13.50-0.50
Previous 13.50-0.50
High/Low 13.50-0.50
1501-550
All Official 13.50-0.50
Korea class 13.50-0.50
Open bid 13.50-0.50
Total daily turnover 12,373

IN COINAGE COIN (1000 gms; \$ per 1000)

Close 13.50-0.50
Previous 13.50-0.50
High/Low 13.50-0.50
1501-550
All Official 13.50-0.50
Korea class 13.50-0.50
Open bid 13.50-0.50
Total daily turnover 12,373

GRAINS AND OIL SEEDS

IN WHEAT COMEX (1000 bushels; \$ per bushel)

Close 75.75-0.25
Previous 75.75-0.25
High/Low 75.75-0.25
1501-550
All Official 75.75-0.25
Korea class 75.75-0.25
Open bid 75.75-0.25
Total daily turnover 12,373

IN CORN COMEX (1000 bushels; \$ per bushel)

Close 3.75-0.05
Previous 3.75-0.05
High/Low 3.75-0.05
1501-550
All Official 3.75-0.05
Korea class 3.75-0.05
Open bid 3.75-0.05
Total daily turnover 12,373

FT MANAGED FUNDS SERVICE

● FT Cliquine Unit Trust Prices are available over the telephone. Call the FT Cliquine Help Desk on 1-441-771-8254/8276 for more details.

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FT MANAGED FUNDS SERVICE

Offshore Insurances and Other Funds

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LONDON SHARE SERVICE

BUY TRUSTS SPLIT CAPITAL - Continued

Company	Price	Dividend	Yield
...

OTHER INVESTMENT TRUSTS

Company	Price	Dividend	Yield
...

INVESTMENT COMPANIES

Company	Price	Dividend	Yield
...

LEISURE & HOTELS

Company	Price	Dividend	Yield
...

LIFE ASSURANCE

Company	Price	Dividend	Yield
...

MEDIA

Company	Price	Dividend	Yield
...

MEDIA - Continued

Company	Price	Dividend	Yield
...

PROPERTY

Company	Price	Dividend	Yield
...

PROPERTY - Continued

Company	Price	Dividend	Yield
...

PROPERTY - Continued

Company	Price	Dividend	Yield
...

PROPERTY - Continued

Company	Price	Dividend	Yield
...

PROPERTY - Continued

Company	Price	Dividend	Yield
...

PROPERTY - Continued

Company	Price	Dividend	Yield
...

PHARMACEUTICALS - Continued

Company	Price	Dividend	Yield
...

PHARMACEUTICALS - Continued

Company	Price	Dividend	Yield
...

PHARMACEUTICALS - Continued

Company	Price	Dividend	Yield
...

PHARMACEUTICALS - Continued

Company	Price	Dividend	Yield
...

PHARMACEUTICALS - Continued

Company	Price	Dividend	Yield
...

PHARMACEUTICALS - Continued

Company	Price	Dividend	Yield
...

PHARMACEUTICALS - Continued

Company	Price	Dividend	Yield
...

RETAILERS, GENERAL - Continued

Company	Price	Dividend	Yield
...

RETAILERS, GENERAL - Continued

Company	Price	Dividend	Yield
...

RETAILERS, GENERAL - Continued

Company	Price	Dividend	Yield
...

RETAILERS, GENERAL - Continued

Company	Price	Dividend	Yield
...

RETAILERS, GENERAL - Continued

Company	Price	Dividend	Yield
...

RETAILERS, GENERAL - Continued

Company	Price	Dividend	Yield
...

RETAILERS, GENERAL - Continued

Company	Price	Dividend	Yield
...

TRANSPORT - Continued

Company	Price	Dividend	Yield
...

TRANSPORT - Continued

Company	Price	Dividend	Yield
...

TRANSPORT - Continued

Company	Price	Dividend	Yield
...

TRANSPORT - Continued

Company	Price	Dividend	Yield
...

TRANSPORT - Continued

Company	Price	Dividend	Yield
...

TRANSPORT - Continued

Company	Price	Dividend	Yield
...

TRANSPORT - Continued

Company	Price	Dividend	Yield
...

AM - Continued

Company	Price	Dividend	Yield
...

AM - Continued

Company	Price	Dividend	Yield
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AM - Continued

Company	Price	Dividend	Yield
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AM - Continued

Company	Price	Dividend	Yield
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AM - Continued

Company	Price	Dividend	Yield
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AM - Continued

Company	Price	Dividend	Yield
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AM - Continued

Company	Price	Dividend	Yield
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AM - Continued

Company	Price	Dividend	Yield
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AM - Continued

Company	Price	Dividend	Yield
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AM - Continued

Company	Price	Dividend	Yield
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AM - Continued

Company	Price	Dividend	Yield
...

AM - Continued

Company	Price	Dividend	Yield
...

AM - Continued

Company	Price	Dividend	Yield
...

AM - Continued

Company	Price	Dividend	Yield
...

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AMERICANS

Company	Price	Dividend	Yield
...

CANADIANS

Company	Price	Dividend	Yield
...

SOUTH AFRICANS

Company	Price	Dividend	Yield
...

TRADED INDEX SECURITIES

Company	Price	Dividend	Yield
...

GUIDE TO LONDON SHARE SERVICE

Prices and trading volumes for the London Share Service are published by the FTSE 100 Index.

Company classifications are based on those used for the FTSE 100 Index.

Trading volumes are shown in millions of shares unless otherwise stated. For FTSE 100 Index constituents and shares traded on the London Stock Exchange, the volume shown is the volume traded on the LSE. For other companies, the volume shown is the volume traded on the London Stock Exchange.

Dividends are shown in pence unless otherwise stated. For FTSE 100 Index constituents, the dividend shown is the dividend for the year ended 31 March 1998. For other companies, the dividend shown is the dividend for the year ended 31 March 1997.

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LONDON STOCK EXCHANGE

Footsie succumbs to worldwide equity sell-off

MARKET REPORT

By Philip Coggan, Market Editor

The wave of selling that swept around world stock markets caused share prices in London to capsize yesterday, prompting the first three-figure fall in the FTSE 100 index for a month.

Shares were on the defensive from the outset: Wall Street's 150-point fall on Tuesday was followed by a drop of more than 5 per cent in Hong Kong, as worries mounted about a recession in the former British colony.

During the day, there were further worries from Russia, where the central bank tripled interest rates in order to defend the ruble, and from other European bourses, which dropped by 2-3 per cent.

Mervyn King, the Bank of England's chief economist, did not help sentiment by saying to the Building Societies Association conference that there was "a risk that consumption may prove stubbornly buoyant" and by referring to recent average earnings numbers as "undoubtedly disappointing".

The comments increased investor nervousness before next week's monetary policy committee meeting. In April, Mr King was one of the three MPC members to vote for a rate increase.

Mr King's comments weighed on the gilt market, which finished slightly lower on a day when world bond markets were generally benefiting from the "safe haven" effect.

As the final straw for London, Wall Street opened sharply lower once more, with the Dow Jones Industrial Average falling more than 90 points in the first 10

minutes. A rally failed to hold and at the London close the Dow was 115 points lower. The world market seemed to be feeding on itself, with weakness in one region being passed on to another.

All this bad news meant that, once the UK market had dropped 100 points after the first hour of trading, it showed a three-figure loss for most of the day. At its worst, Footsie was 138.8 points lower at 5,838.9. By the close, the loss was 100.5 to 5,870.2.

Even the FTSE 250 and SmallCap indices, which

have repeatedly outperformed the Footsie in recent sessions, suffered in the carnage. The SmallCap shed 19.5 to 2,773.2. The 250 index lost 40.1 to 5,880.5, but still finished higher than the 100 index for the first time since May 1997.

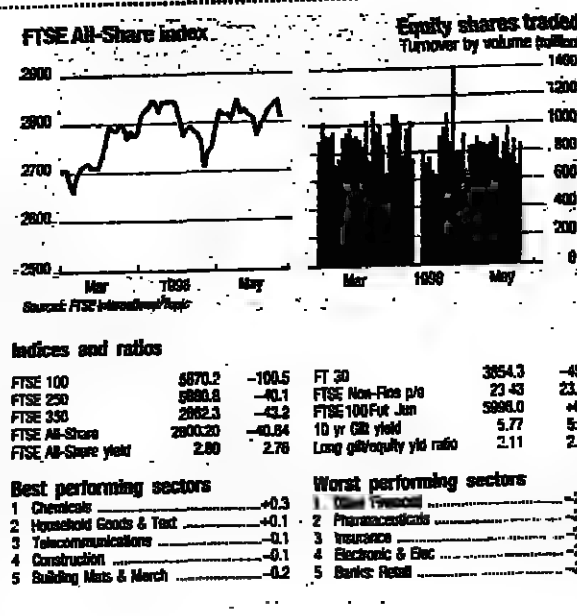
Richard Grehan, UK strategist at Morgan Stanley, said Footsie seemed to be stuck in a 5,800-6,000 range. "A lot of people anticipated a market advance to 6,000 this year, but it got there within four to five months. Interest rates look likely to be flat for a while and until we see a significant event, it is hard

to see what will drive prices out of the range."

Individual company movements were swamped by the overall market fall, although two index entrants - Halifax, which is just about to join the MSCI, and Misy, which recently qualified for the Footsie - managed to rise against the market trend.

Banks, notably HSBC and Standard Chartered, the two with strong Asian links, were among those taking the biggest hits.

Volume was 856.8m by 4pm, of which 53 per cent was in financial stocks.



Airtours loses height

COMPANIES REPORT

By Steve Thompson and Peter John

Airtours, the travel group, was given a thorough shaking in the market after revealing disappointing interim and worrying news about trading.

Interim losses are a common feature for holiday groups because of the cyclical nature of the sector.

Analysts said they expected to reduce their current-year estimates by about 8 per cent.

The shares finished 35 lower at 486.5p.

Buying interest built up substantially in Granada, the leisure and hotels group, whose shares made gradual progress to finish the session 16 firmer at 511.35 amid increasing speculation that the company might be about to reveal an acquisition.

"Focused acquisitions are viewed as market positive," said one specialist.

Misy was one of a host of software stocks making further rapid progress in the market. The first software group to be included in the FTSE 100, Misy's shares were rampant up until inclusion, only to fall away as investors took profits. But many dealers regard the shares as

oversold; they closed 186 higher at 235.34.

Halifax topped the list of Footsie performers ahead of the stock's inclusion in an index of the world's leading companies. The shares jumped 48 to 923p in spite of reports of a failed merger approach to Royal Bank of Scotland.

Halifax will be added to Morgan Stanley's index of the world's 1,575 leading companies at the close of trade on Friday. Analysts said trade was active as institutions tried to top up holdings.

Meanwhile, Royal Bank of Scotland rose in earlier trading but ended the day 5

lower at 210.35.

Heavily weighted banks led the FTSE down with Barclays shedding 42 to 218.50 and Abbey National 42 to 210.64.

HSBC, with its heavy Hong Kong exposure, lost 109 to 215.31 and Standard 40 to 272p. Schroders fell 145p to 217.10.

Support services group Rentokil Initial rose 2 to 417p as investors took advantage of Tuesday's losses in the stock and bought the shares in the hope of the company returning superior earnings growth.

Analysts said Rentokil

shares had been buoyed by the company's ability to fulfil its pledge of 20 per cent earnings growth per year.

Earlier in the week Panmure Gordon published a big "sell" note on the company.

Oil shares were comparatively solid as oil prices recovered slightly on optimism about the forthcoming meeting of the 11-member Organisation of Petroleum Exporting Countries. Former Saudi oil minister Sheikh Yamani said Opec would have to cut output again to stabilise prices when it meets in Vienna next month.

A speech by Mr Yamani said that if Opec wanted to stabilise Brent at around \$14 a barrel, it would have to restrain output to 27m barrels a day. A survey for April pegged output at around 28.2m barrels per day.

BP fell 54 to 823.4p. Shell Transport dropped 7 to 445.4p and Lascio, which has been buoyed by its exposure to potential in the Falkland Islands, slipped 2 to 296.4p.

Lascio announced further encouraging drilling success in its operations in Pakistan and Libya, the former find-

ing new gas reserves and the latter more oil.

Desire Petroleum, the London market's latest hot stock, with intense speculation about its drilling operations off the coast of the Falkland Islands, encountered a fresh dose of profit-taking to finish the day a net 67p lower at 877.4p. Volume in Desire was 771,000 shares.

Water rising

Anglian Water bucked the trend as it launched the water and sewerage company's results with a slight rise in profits and a 13 per cent dividend increase.

The shares closed marginally higher at 865.4p after the company boosted its total dividend to 39p per share. It also announced that profits for the year to March of £267.8m were up from £257.1m and within expectations.

Analysts were further enthused by the company's plan to return up to 8 per cent of its capital to shareholders in the form of a "B" share issue to compensate on its balance sheet for the effect of 13.8m warrants maturing in August and an enhanced scrip dividend offer.

The city had expected the sector to keep a low profile in the current state of results as a new structure for price caps is currently under discussion with industry regulator Ofwat and

should be implemented in 2000 for five years.

South West Water and Yorkshire Water, which also report annual results this week, edged higher. South West by a penny to 956p and Yorkshire by 3 to 476p.

Mining group Billiton dropped another 3/4 to 152.4p as a large line of stock continued to overhang the market following an attempted placing by Dresdner Kleinwort Benson.

The broker bought about 4.8 per cent in Billiton recently from Sanlam, the South African financial insurer, and undertook a placing with institutional clients. It was reported that it had not placed all of the stock and was understood to be holding around 80m shares.

A spate of results and trading news from the retail arena saw Kingfisher down 7 to 210.83, after the 5.9 per cent increase in sales during the first quarter.

Allieds edged up 3 to 259p on news of the almost 5 per cent lift in sales in the first seven weeks of the trading year.

BAA gave a belated positive response to the 18 per cent lift in annual profits, the shares up 11 to 674p.

British Airways lost 13 1/4 to 636.4p in the wake of preliminary figures showing profits down an expected 9 per cent, badly affected by sterling's performance over the past year and more.

Cigarette maker Gallaher eased to 309.4p as the company told shareholders that sales fell in the domestic cigarette market by more than 4 per cent during the first three months of this year.

Chairman Peter Wilson said he believed the market "may well be roughly flat," because "bootlegging" of tobacco from mainland Europe, where government taxes are much lower than in Britain, remains a "significant issue".

FUTURES AND OPTIONS

FTSE 100 INDEX FUTURES (LFFE) £10 per full index point

	Open	Sett. price	Change	High	Low	Sett. vol.	Open int.
Jun	5880.0	5880.0	-125.0	5900.0	5850.0	2784	15728
Sep	5887.0	5887.0	-126.5	5907.5	5843.0	2205	12280
Dec	5897.0	5897.0	-130.0	5917.0	5843.0	302	360

FTSE 250 INDEX FUTURES (LFFE) £10 per full index point

	Open	Sett. price	Change	High	Low	Sett. vol.	Open int.
Jun	5910.0	5910.0	-40.0	5930.0	5870.0	1574	6978
Sep	5915.0	5915.0	-40.0	5935.0	5875.0	1115	0

FTSE 100 INDEX OPTION (LFFE) £10 per full index point

	Open	Sett. price	Change	High	Low	Sett. vol.	Open int.
Jun	5880.0	5880.0	-125.0	5900.0	5850.0	2784	15728
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FTSE 100 INDEX OPTION (LFFE) £10 per full index point

3.73	1.98	13.52	18.26	2450.02	Seaboard Rock	1,800	888	-125
1.82	+	+	26.03	1854.27	Marathon Oil	4,700	6404	-125
4.16	2.23	10.72	10.28	2002.18	Wyandotte	388	1890	-8
					Wyandotte Arco NW	13	1840	-8

البيان


Highs & Lows shown on a 52 week basis

WORLD STOCK MARKETS

EUROPE									
EUROPE (May 27 / Sat)									
Stock	High	Low	52w High	52w Low	Change	Vol	Open	Close	Settle
UK (May 27 / Fri)									
FTSE 100	4,812.50	4,785.00	4,812.50	4,785.00	+12.50	1,200,000	4,790.00	4,800.00	4,812.50
FTSE 250	1,250.00	1,240.00	1,250.00	1,240.00	+10.00	300,000	1,240.00	1,245.00	1,250.00
FTSE 1000	1,500.00	1,490.00	1,500.00	1,490.00	+10.00	400,000	1,490.00	1,495.00	1,500.00
GERMANY (May 27 / Fri)									
DAX	2,850.00	2,840.00	2,850.00	2,840.00	+10.00	1,500,000	2,840.00	2,845.00	2,850.00
FRANCE (May 27 / Fri)									
CAC 40	3,850.00	3,840.00	3,850.00	3,840.00	+10.00	1,000,000	3,840.00	3,845.00	3,850.00
ITALY (May 27 / Fri)									
FTSE MIB	10,500.00	10,480.00	10,500.00	10,480.00	+20.00	800,000	10,480.00	10,490.00	10,500.00
SPAIN (May 27 / Fri)									
IBEX 35	4,500.00	4,480.00	4,500.00	4,480.00	+20.00	600,000	4,480.00	4,490.00	4,500.00
Greece (May 27 / Fri)									
ATX	1,200.00	1,190.00	1,200.00	1,190.00	+10.00	200,000	1,190.00	1,195.00	1,200.00
Netherlands (May 27 / Fri)									
AEX	350.00	348.00	350.00	348.00	+2.00	100,000	348.00	349.00	350.00
Sweden (May 27 / Fri)									
OMX	1,500.00	1,490.00	1,500.00	1,490.00	+10.00	100,000	1,490.00	1,495.00	1,500.00
Denmark (May 27 / Fri)									
NASDAQ OMX	1,200.00	1,190.00	1,200.00	1,190.00	+10.00	100,000	1,190.00	1,195.00	1,200.00
Finland (May 27 / Fri)									
HEX	1,200.00	1,190.00	1,200.00	1,190.00	+10.00	100,000	1,190.00	1,195.00	1,200.00
Poland (May 27 / Fri)									
WSE	1,200.00	1,190.00	1,200.00	1,190.00	+10.00	100,000	1,190.00	1,195.00	1,200.00
Czech Republic (May 27 / Fri)									
PSE	1,200.00	1,190.00	1,200.00	1,190.00	+10.00	100,000	1,190.00	1,195.00	1,200.00
Hungary (May 27 / Fri)									
BUX	1,200.00	1,190.00	1,200.00	1,190.00	+10.00	100,000	1,190.00	1,195.00	1,200.00
Slovakia (May 27 / Fri)									
SSE	1,200.00	1,190.00	1,200.00	1,190.00	+10.00	100,000	1,190.00	1,195.00	1,200.00
Slovenia (May 27 / Fri)									
SSE	1,200.00	1,190.00	1,200.00	1,190.00	+10.00	100,000	1,190.00	1,195.00	1,200.00
Portugal (May 27 / Fri)									
BVL	1,200.00	1,190.00	1,200.00	1,190.00	+10.00	100,000	1,190.00	1,195.00	1,200.00
Ireland (May 27 / Fri)									
ISEQ	1,200.00	1,190.00	1,200.00	1,190.00	+10.00	100,000	1,190.00	1,195.00	1,200.00
Belgium (May 27 / Fri)									
BESE	1,200.00	1,190.00	1,200.00	1,190.00	+10.00	100,000	1,190.00	1,195.00	1,200.00
Luxembourg (May 27 / Fri)									
BELX	1,200.00	1,190.00	1,200.00	1,190.00	+10.00	100,000	1,190.00	1,195.00	1,200.00
Austria (May 27 / Fri)									
ATX	1,200.00	1,190.00	1,200.00	1,190.00	+10.00	100,000	1,190.00	1,195.00	1,200.00
Switzerland (May 27 / Fri)									
SIX	1,200.00	1,190.00	1,200.00	1,190.00	+10.00	100,000	1,190.00	1,195.00	1,200.00
Norway (May 27 / Fri)									
OSLO	1,200.00	1,190.00	1,200.00	1,190.00	+10.00	100,000	1,190.00	1,195.00	1,200.00
Sweden (May 27 / Fri)									
OMX	1,200.00	1,190.00	1,200.00	1,190.00	+10.00	100,000	1,190.00	1,195.00	1,200.00
Denmark (May 27 / Fri)									
NASDAQ OMX	1,200.00	1,190.00	1,200.00	1,190.00	+10.00	100,000	1,190.00	1,195.00	1,200.00
Finland (May 27 / Fri)									
HEX	1,200.00	1,190.00	1,200.00	1,190.00	+10.00	100,000	1,190.00	1,195.00	1,200.00
Poland (May 27 / Fri)									
WSE	1,200.00	1,190.00	1,200.00	1,190.00	+10.00	100,000	1,190.00	1,195.00	1,200.00
Czech Republic (May 27 / Fri)									
PSE	1,200.00	1,190.00	1,200.00	1,190.00	+10.00	100,000	1,190.00	1,195.00	1,200.00
Hungary (May 27 / Fri)									
BUX	1,200.00	1,190.00	1,200.00	1,190.00	+10.00	100,000	1,190.00	1,195.00	1,200.00
Slovakia (May 27 / Fri)									
SSE	1,200.00	1,190.00	1,200.00	1,190.00	+10.00	100,000	1,190.00	1,195.00	1,200.00
Slovenia (May 27 / Fri)									
SSE	1,200.00	1,190.00	1,200.00	1,190.00	+10.00	100,000	1,190.00	1,195.00	1,200.00
Portugal (May 27 / Fri)									
BVL	1,200.00	1,190.00	1,200.00	1,190.00	+10.00	100,000	1,190.00	1,195.00	1,200.00
Ireland (May 27 / Fri)									
ISEQ	1,200.00	1,190.00	1,200.00	1,190.00	+10.00	100,000	1,190.00	1,195.00	1,200.00
Belgium (May 27 / Fri)									
BESE	1,200.00	1,190.00	1,200.00	1,190.00	+10.00	100,000	1,190.00	1,195.00	1,200.00
Luxembourg (May 27 / Fri)									
BELX	1,200.00	1,190.00	1,200.00	1,190.00	+10.00	100,000	1,190.00	1,195.00	1,200.00
Austria (May 27 / Fri)									
ATX	1,200.00	1,190.00	1,200.00	1,190.00	+10.00	100,000	1,190.00	1,195.00	1,200.00
Switzerland (May 27 / Fri)									
SIX	1,200.00	1,190.00	1,200.						

[illegible]

Price data supplied by Ecol, part of FT information.

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GLOBAL EQUITY MARKETS

US INDICES

Index	May 27	May 28	May 29	May 30	May 31	1998	1997	1996	1995	1994	1993	1992	1991	1990	1989	1988	1987	1986	1985	1984	1983	1982	1981	1980	1979	1978	1977	1976	1975	1974	1973	1972	1971	1970	1969	1968	1967	1966	1965	1964	1963	1962	1961	1960	1959	1958	1957	1956	1955	1954	1953	1952	1951	1950	1949	1948	1947	1946	1945	1944	1943	1942	1941	1940	1939	1938	1937	1936	1935	1934	1933	1932	1931	1930	1929	1928	1927	1926	1925	1924	1923	1922	1921	1920	1919	1918	1917	1916	1915	1914	1913	1912	1911	1910	1909	1908	1907	1906	1905	1904	1903	1902	1901	1900	1899	1898	1897	1896	1895	1894	1893	1892	1891	1890	1889	1888	1887	1886	1885	1884	1883	1882	1881	1880	1879	1878	1877	1876	1875	1874	1873	1872	1871	1870	1869	1868	1867	1866	1865	1864	1863	1862	1861	1860	1859	1858	1857	1856	1855	1854	1853	1852	1851	1850	1849	1848	1847	1846	1845	1844	1843	1842	1841	1840	1839	1838	1837	1836	1835	1834	1833	1832	1831	1830	1829	1828	1827	1826	1825	1824	1823	1822	1821	1820	1819	1818	1817	1816	1815	1814	1813	1812	1811	1810	1809	1808	1807	1806	1805	1804	1803	1802	1801	1800	1799	1798	1797	1796	1795	1794	1793	1792	1791	1790	1789	1788	1787	1786	1785	1784	1783	1782	1781	1780	1779	1778	1777	1776	1775	1774	1773	1772	1771	1770	1769	1768	1767	1766	1765	1764	1763	1762	1761	1760	1759	1758	1757	1756	1755	1754	1753	1752	1751	1750	1749	1748	1747	1746	1745	1744	1743	1742	1741	1740	1739	1738	1737	1736	1735	1734	1733	1732	1731	1730	1729	1728	1727	1726	1725	1724	1723	1722	1721	1720	1719	1718	1717	1716	1715	1714	1713	1712	1711	1710	1709	1708	1707	1706	1705	1704	1703	1702	1701	1700	1699	1698	1697	1696	1695	1694	1693	1692	1691	1690	1689	1688	1687	1686	1685	1684	1683	1682	1681	1680	1679	1678	1677	1676	1675	1674	1673	1672	1671	1670	1669	1668	1667	1666	1665	1664	1663	1662	1661	1660	1659	1658	1657	1656	1655	1654	1653	1652	1651	1650	1649	1648	1647	1646	1645	1644	1643	1642	1641	1640	1639	1638	1637	1636	1635	1634	1633	1632	1631	1630	1629	1628	1627	1626	1625	1624	1623	1622	1621	1620	1619	1618	1617	1616	1615	1614	1613	1612	1611	1610	1609	1608	1607	1606	1605	1604	1603	1602	1601	1600	1599	1598	1597	1596	1595	1594	1593	1592	1591	1590	1589	1588	1587	1586	1585	1584	1583	1582	1581	1580	1579	1578	1577	1576	1575	1574	1573	1572	1571	1570	1569	1568	1567	1566	1565	1564	1563	1562	1561	1560	1559	1558	1557	1556	1555	1554	1553	1552	1551	1550	1549	1548	1547	1546	1545	1544	1543	1542	1541	1540	1539	1538	1537	1536	1535	1534	1533	1532	1531	1530	1529	1528	1527	1526	1525	1524	1523	1522	1521	1520	1519	1518	1517	1516	1515	1514	1513	1512	1511	1510	1509	1508	1507	1506	1505	1504	1503	1502	1501	1500	1499	1498	1497	1496	1495	1494	1493	1492	1491	1490	1489	1488	1487	1486	1485	1484	1483	1482	1481	1480	1479	1478	1477	1476	1475	1474	1473	1472	1471	1470	1469	1468	1467	1466	1465	1464	1463	1462	1461	1460	1459	1458	1457	1456	1455	1454	1453	1452	1451	1450	1449	1448	1447	1446	1445	1444	1443	1442	1441	1440	1439	1438	1437	1436	1435	1434	1433	1432	1431	1430	1429	1428	1427	1426	1425	1424	1423	1422	1421	1420	1419	1418	1417	1416	1415	1414	1413	1412	1411	1410	1409	1408	1407	1406	1405	1404	1403	1402	1401	1400	1399	1398	1397	1396	1395	1394	1393	1392	1391	1390	1389	1388	1387	1386	1385	1384	1383	1382	1381	1380	1379	1378	1377	1376	1375	1374	1373	1372	1371	1370	1369	1368	1367	1366	1365	1364	1363	1362	1361	1360	1359	1358	1357	1356	1355	1354	1353	1352	1351	1350	1349	1348	1347	1346	1345	1344	1343	1342	1341	1340	1339	1338	1337	1336	1335	1334	1333	1332	1331	1330	1329	1328	1327	1326	1325	1324	1323	1322	1321	1320	1319	1318	1317	1316	1315	1314	1313	1312	1311	1310	1309	1308	1307	1306	1305	1304	1303	1302	1301	1300	1299	1298	1297	1296	1295	1294	1293	1292	1291	1290	1289	1288	1287	1286	1285	1284	1283	1282	1281	1280	1279	1278	1277	1276	1275	1274	1273	1272	1271	1270	1269	1268	1267	1266	1265	1264	1263	1262	1261	1260	1259	1258	1257	1256	1255	1254	1253	1252	1251	1250	1249	1248	1247	1246	1245	1244	1243	1242	1241	1240	1239	1238	1237	1236	1235	1234	1233	1232	1231	1230	1229	1228	1227	1226	1225	1224	1223	1222	1221	1220	1219	1218	1217	1216	1215	1214	1213	1212	1211	1210	1209	1208	1207	1206	1205	1204	1203	1202	1201	1200	1199	1198	1197	1196	1195	1194	1193	1192	1191	1190	1189	1188	1187	1186	1185	1184	1183	1182	1181	1180	1179	1178	1177	1176	1175	1174	1173	1172	1171	1170	1169	1168	1167	1166	1165	1164	1163	1162	1161	1160	1159	1158	1157	1156	1155	1154	1153	1152	1151	1150	1149	1148	1147	1146	1145	1144	1143	1142	1141	1140	1139	1138	1137	1136	1135	1134	1133	1132	1131	1130	1129	1128	1127	1126	1125	1124	1123	1122	1121	1120	1119	1118	1117	1116	1115	1114	1113	1112	1111	1110	1109	1108	1107	1106	1105	1104	1103	1102	1101	1100	1099	1098	1097	1096	1095	1094	1093	1092	1091	1090	1089	1088	1087	1086	1085	1084	1083	1082	1081	1080	1079	1078	1077	1076	1075	1074	1073	1072	1071	1070	1069	1068	1067	1066	1065	1064	1063	1062	1061	1060	1059	1058	1057	1056	1055	1054	1053	1052	1051	1050	1049	1048	1047	1046	1045	1044	1043	1042	1041	1040	1039	1038	1037	1036	1035	1034	1033	1032	1031	1030	1029	1028	1027	1026	1025	1024	1023	1022	1021	1020	1019	1018	1017	1016	1015	1014	1013	1012	1011	1010	1009	1008	1007	1006	1005	1004	1003	1002	1001	1000	99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STOCK MARKETS

Bears bring record runs to grinding halt

WORLD OVERVIEW

The bears were out in force yesterday as Tuesday's late plunge on Wall Street and renewed economic worries in Asia and Russia sent share prices tumbling, writes Philip Coggan.

The 150-point fall in the Dow Jones Industrial Average on Tuesday - partly linked to earnings worries - set a discouraging tone for Asian markets. Adding to the negative sentiment was

the downgrade by Moody's of the credit rating of five Japanese banks.

Then a warning from Hong Kong chief executive Tung Chee-hwa that economic growth could be negative and the announcement of a 12 per cent fall in annual retail sales meant

Korea as the Asian market in the spotlight. The Hang Seng index fell 5.3 per cent.

The global team at BT Alex Brown warns: "Econo-

mists in the HK region have been exceptionally slow to adjust their forecasts to reflect the growing economic reality. Despite heavy downgrades, analysts have yet to factor an outright recession into their earnings forecasts."

BT Alex Brown adds that Chinese economic growth is slowing and devaluation of the renminbi remains a risk towards the year end.

"As a result of this risk, short-term rates in Hong

Kong remain high. This will undermine banking and property stocks. Together they account for two-thirds of the Hang Seng Index. With property developers now engaged in a price war, the outlook for the Hong Kong market is bleak," it said.

Europe had its own casualty in Russia, where speculation about the devaluation of the rouble prompted the central bank to triple interest rates from 50 to 150 per

cent. The Russian stock market dropped 10.6 per cent in response.

Another weak opening on Wall Street, with the Dow falling more than 100 points in the New York morning, added to the downward spiral. Latin American markets also took a hit.

And Barton Biggs, the Morgan Stanley strategist, said he was planning to cut the US and emerging market proportions of his model portfolio and raise the cash

element. Mr Biggs cited a number of bearish signs, including deteriorating market breadth, lagging medium and small-cap stocks and troubles in tech stocks.

All of this had an inevitable impact on European bourses. Losses were in the 2-3 per cent range in most markets, bringing the record-breaking runs to an abrupt halt. European markets have gained around 27 per cent in dollar terms since the start of the year.

EMERGING MARKET FOCUS

Rand takes on the speculators

An increase in official interest rates in South Africa, triggered by the rand, has cut a swathe through the Johannesburg stock exchange this week.

For most of this year, equities have soared as investors discounted a easy interest rate scenario - with possible cuts of up to two percentage points in key official rates, according to James Scott, at Société Générale Frankel Polak.

However, the picture has changed dramatically this week with the Reserve Bank going to war against currency speculators.

Analysis are warning banks might have to raise their lending rates to the public if the turmoil in the currency market persists.

Banks are trying to hold rates stable in the hope that the turbulence is temporary.

"If the repo rate remains this high for more than a week, it is likely banks will hike their prime rates," said Gordon Smith, analyst at Deutsche Morgan Grenfell.

The all share index reached a peak of 8,573.6 on April 21 - 35 per cent up on its opening level this year. Although the record high was followed by a spell of profit-taking, the underlying sentiment remained bullish as foreign investors continued to buy the South African interest rate story.

As if the sudden change in the interest rate outlook were not enough, the gold price also refused to play ball. The bullion price has dipped below \$285, putting pressure on gold shares.

The downturn on world stock markets further depressed sentiment yesterday and the all share index closed 889.9 or 5 per cent lower at 7,683.2, taking its losses in two days to almost 6.8 per cent.

Bank shares, the darlings of the market for most of the year, took the biggest pounding as the investors fretted about the pressure on banks' margins. The financial index plunged 742.6 or 5.5 per cent to 12,712.8, bringing its decline to almost 7.8 per cent in two days.

The financial index peaked at 14,739.1 in mid-April, having soared 45 per cent from the beginning of the year. Big financial mergers and acquisitions, as well as interest rate hopes, had fuelled bank popularity.

The outlook for equities depends on the rand's ability to hold its own against the dollar. So far, the central bank has managed to keep the rand at about R5.14 to the dollar, a loss of little more than 1 per cent in the past two weeks, but at great cost to its already threadbare gold and foreign exchange reserves.

It postponed using interest rates aggressively for as long as possible, trying to protect the currency through intervention.

Analysts are worried that the central bank might have spent as much as a third of its foreign exchange reserves defending the rand.

Kevin Brady at brokers Bernard Jacobs Mellet said: "The crucial issue for the markets is the amount of foreign exchange the central bank has used. The figure will be released next week and if it is bad, confidence will take a dramatic knock."

Greta Stagg

US equities slide below 8,900 level

AMERICAS

Worries about Asia and US corporate earnings put Wall Street on the spot for a second day, sending the Dow Jones Industrial Average back below 8,900, writes John Labate in New York.

By early afternoon the Dow Jones Industrial Average had lost 105.38 or 1.18 per cent to 8,958.35, while the broader Standard & Poor's 500 index was down 10.17 to 1,083.85. The Nasdaq composite was off 24.16 at 1,703.93.

As the market experienced a second day of sharp losses, analysts were left to debate whether a widespread correction in US shares was underway.

Some believe the current downward slide will coax buyers back into the market. Arthur Hogan, chief market analyst at Jefferies & Co in Boston, said 8,850 was an important technical level for the Dow and one worth watching.

"If we can close above that, it is a strong signal that the worst is behind us," he said.

Analysts were focusing more on rising worries in overseas markets.

"We're seeing a blueprint in front of us of how financial crises deepen and spread," said Hugh Johnson, chief investment officer at First Albany. "There's a lot of work that needs to be done to restore confidence in markets in Indonesia, Japan, Russia, and elsewhere."

The flight out of equities sent bonds higher for a second day and US Treasury prices climbed on. By early afternoon the benchmark 30-year bond had gained 1/4 to 104 1/4, sending the yield down to 5.821 per cent.

São Paulo pulled lower

SAO PAULO continued to stream lower as stock market shakeouts in Russia and across Asia trained the spotlight on Brazil's own economic shortcomings.

Blue chips plunged and at the mid-session count the Bovespa index, which had tumbled 5.8 per cent on Tuesday, was off 327 or 3.5 per cent at 9,110.

"There is not a lot of volume around, but where there is action it is all on the sell side," said one broker. Among market heavy-

weights, Telebras fell 3.3 per cent to R\$114.30 and Petrobras 2.4 per cent to R\$20.4. Eletrobras came off 2.3 per cent to R\$34.69.

MEXICO CITY tracked Wall Street lower in early trading, with sentiment further weakened by a poor start for the peso in the foreign exchanges.

At mid-session, the IPC index stood at 4,345.69, a decline of 2.4 per cent or 107.89. The index ended Tuesday's session 3.4 per cent lower.

EUROPE

European equities, which have been probing record highs in recent sessions, were in headlong retreat yesterday with Frankfurt, Madrid and Milan all tumbling more than 3 per cent.

FRANKFURT ended just above its low for the session. The Xetra Dax index was off 173.01 or 3.1 per cent at 5,466.88 at the close of electronic trading. Financials led the way down.

Deutsche Bank fell DM6.50 to DM159.60 and Dresdner Bank came off DM3.75 to DM99.10 as investors fretted about the sector's exposure to Asian lending.

Allianz shed DM18.50 to DM573.50 in spite of revealing hidden reserves of more than \$50bn. Munich Re gave up DM23.50 to DM816.

Among leading industrials, Daimler Benz was actively traded, losing DM3.50 to DM196. Technology stocks were mixed. SAP lost DMB50 to DM656.10, but Deutsche Telekom turned in a defensive performance, dipping a modest 50 pf to DM49.20.

Sportswear leader Adidas-Salomon appeared to suffer from unfortunate timing, slipping DM4.80 to DM318.50 on news of promotion to the benchmark Dax index.

Heidelberg Druck fared better, rising DM7 to DM150 as investors learned that it had beaten car rental group Sixt for a place in the second-tier MDAX index.

PARIS fell 96.51 or 2.4 per cent to 4,017.37 on the CAC 40 index in below-average trading volume.

Banks were in the thick of the action with Société Générale and BNP, which are thought to have a combined exposure to Asia of more than \$10bn, soaking up much of the selling in the sector.

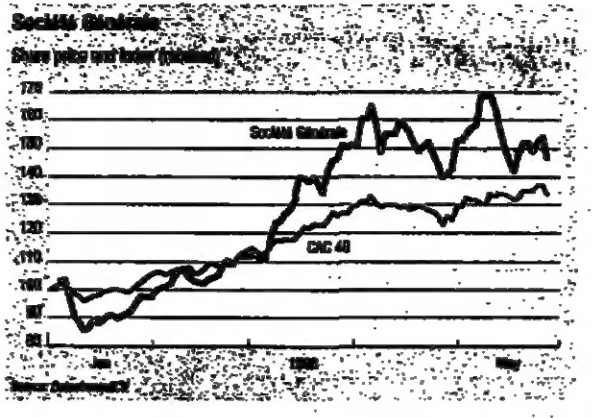
SocGen lost FF67 or 4.5 per cent to FF1,307 and BNP came off FF790 to FF504. LVMH, which has a large customer base in Asia, gave up FF66 at FF1,326.

Unisur, a strong market lately on broker optimism and Brazilian acquisitions, fell FF5.50 to FF101.

Synthelabo managed to avoid the backwash, adding FF51 to FF996 on positive broker comment following the news that the group plans to take control of a US drugs joint venture.

Among lesser caps, Havas Advertising fell FF36 to FF1,215 in spite of a forecast of minimum profits growth of 20 per cent for this year.

ZURICH also saw large losses among the heavy weight financials, and the



SMI index ended with a decline of 98.4 at 7,683.5. UBS shed SF75 to SF2,517 and CS Group lost SF76.50 to SF726.50. Swiss Re ended off SF735 at SF734.7.

Among industrials, ABB dipped SF75 to SF2,500, but Alusuisse continued to push higher on rumours of imminent corporate activity.

Ensa-Chemie and BZ Group, two aggressive Swiss investors, have between them built up a stake of more than 16 per cent in the aluminium group.

AMSTERDAM closed lower on options-related selling by private investors, and the AEX index fell 18.98 to 1,184.21.

Fortis, the Belgo-Dutch bank, fell F13.90 to F123 in spite of a higher-than-expected first-quarter earnings announcement. It stood by its bid for Generale Bank of Brussels, following ABN's counter bid on Tuesday.

ABN, the most active issue of the day, fell F11.30 to F150, while in Brussels, Generale rose BFR275 to BFR77,076.

KNP BT, the office products trader, bucked the trend and rose 60 cents to F1113.60.

MILAN was knocked down by a sell-off in blue chips and the Mibtel index declined 745 or 3 per cent to 24,130.

Fiat fell L170 to L8,107 following an announcement that it would be selling its chemical unit Snia BPD through an offer to private and institutional investors. Snia declined L182 or 6.8 per cent to L2,508 as investors had been expecting Fiat to sell the unit to a single corporate buyer.

Olivetti was the most active issue of the day, falling L47 to L3,600, while Banca di Roma lost L88 to L3,637. Credito Italiano retreated L406 to L9,976 while Montedison fell L81 to L2,454.

Benetton lost L667 to L38,350 on profit-taking. Its shares were bought up earlier before its shareholders meeting.

MADRID was depressed by worries over Latin American financial markets and the general index lost 29.36 or 3.8 per cent to 972.6. Fears that developing markets would be battered by the falls in Asia weighed on blue chips with large investments in Latin America.

Santander fell Pta300 to Pta7,690 and BCH declined Pta55 to Pta4,945. Telefonica, which was also hit by the announcement of its opposition to the government's proposed changes in telephone tariffs, declined Pta310 or 4.3 per cent to Pta6,850.

Endesa, the utilities major undergoing a privatisation programme, fell Pta185 or almost 6 per cent to Pta6,595.

STOCKHOLM lost ground led by Ericsson, which was hit by Asian weakness. The general index lost 71.45 or 1.9 per cent to 3,640.97.

Written and edited by Jeffrey Brown, Emilio Terasz, Paul Grogan, and Nicholas Miller.

London Stock Exchange

Prague Stock Exchange?

FROM JUNE 1998, THIS QUESTION IS IRRELEVANT.

Hong Kong hits four-month low

ASIA PACIFIC

An official warning of negative growth for the territory pushed HONG KONG down to a four-month low. The news, combined with the steep overnight slide for US equities, left the Hang Seng index off 498.78 or 5.3 per cent at 8,963.43 in much improved turnover of HK\$8bn.

The warning of economic contraction came as retail sales for March came in 12 per cent lower and sparked a wave of scare stories about the contents of a government first-quarter economic report, due tomorrow.

HSBC fell HK\$9 to HK\$168.50 and Cheung Kong HK\$2.70 to HK\$42.50.

Much of the day's selling was futures-driven with the May Hang Seng contract ending at a significant discount to the cash market at 8,880.

TOKYO fell 1.4 per cent on yen weakness, bank credit rating downgrades and the overnight shakeout on Wall Street, writes Bethan Hutton in Tokyo.

The Nikkei 225 average ended down 220.53 at 15,664.29, after falling from

the opening high of 15,824.53 to briefly hit a low of 15,549.90. The Topix index of all first-section shares lost 9.8 to 1,222.44.

The banking sector was down 1.8 per cent as news of Moody's downgrades for five stocks, together with the

CHANGES ON THE DAY

	% change
Hong Kong	-5.3
Karachi	-5.2
Bangkok	-4.1
Jakarta	-3.9
Bombay	-2.5
Manila	-2.3
Sydney	-1.7
Kuala Lumpur	-1.6
Tokyo	-1.4
Taipei	-1.4
Singapore	-1.3

watch-listing of a further four, combined with general worries over exposure to Indonesia.

Bank of Tokyo-Mitsubishi fell Y90 to Y1,455, Sakura Bank Y10 to Y426, Sumitomo Bank Y30 to Y1,305, Dai-ichi Kangyo Y27 to Y940 and Industrial Bank of Japan Y20 to Y82.

One exception to banking gloom was Chuo Trust and Banking, which was up Y11

to Y417 after it announced a tie-up with HSBC.

Utilities and railways strengthened slightly as investors sought safe havens. The electricity and gas sector was up 0.18 per cent, and land transport climbed 0.17 per cent.

The continued weakness of the yen, which touched Y138 to the dollar at one stage, helped some but not all blue-chip exporters. Sony gained Y180 to Y11,850, Honda Y30 to Y4,890 and Toshiba Y17 to Y592, but Toyota was unchanged at Y3,490.

Hitachi lost Y2 to Y954 in heavy volume, in spite of announcing plans for a large share buy-back.

Turnover picked up from 278m on Tuesday to about 322m shares, but declining shares outnumbered gains 785 to 514.

In Osaka, the OSX index lost 170.51 to close at 16,448.16 in volume of 8m shares.

JAKARTA dropped sharply as investors sold-off companies with connections with former President Suharto. Weakness in other Asian markets also prompted selling and the

JSE index lost 17.08 or 3.9 per cent to 418.97.

The launch of investigations into favours extended to Mr Suharto's family and friends raised alarm over companies with Suharto links. Indofood, controlled by the Salim Group, which is headed by a close ally of Mr Suharto, was the leading loser of the day, falling Rp750 or 31 per cent to Rp1,875.

Astra, the car-maker, fell Rp125 or 10 per cent to Rp1,075 and Indocement lost Rp100 to Rp2,900.

BANGKOK lost 4 per cent as foreign investors unloaded blue chips. Sentiment was also hit by the weakening yen and the composite index lost 14.42 to 593.12 led by financials.

Thai Farmers Bank fell Bt5 to Bt56 while Bangkok Bank lost Bt5 to Bt64.50. Securities One lost Bt10 to Bt4.50, while Krung Thai Bank declined Bt0.80 to Bt7.50.

SYDNEY fell steeply, pushed down by weak golds, regional worries and the overnight falls on Wall Street. The golds sector retreated 3.9 per cent. The All Ordinaries index lost 47.7 or 1.7 per cent to 2,897.0.

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